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Effect of Trade Balance on Stock Market

Our Export Surplus as a Bull Factor

Great Expansion of American Credit in Prospect

By H. M. P. ECKARDT, Author of Rational Banking System, etc.

THE RAPID growth of the export surplus of the United States to the most unprecedented figures has frequently been commented on, and has become a well recognized factor in the financial situation. A fact not so fully appreciated, however, is that as yet war material has played only a very small part in building up this surplus. More than $500,000,000 of war orders are known to have been placed in America; but even those orders which were placed at the beginning of 1915 have not yet resulted in the shipment of finished goods in quantities of importance.

In the last half of 1915, then, exports of war materials will be adding their weight to our export excess at the same time that our new crops are moving forward to Europe. The result must be an export surplus that will make heavy demands on the financial machinery of the world. How this financing will be handled and its effect on our security markets forms a question of much interest.

The reserves of the American regional and private banks are fairly choked with gold, and London is struggling mightily to keep the exchanges with America from falling further to unheard of quotations through shipments of gold from Ottawa to New York and by other means.

This line of thought is intensely interesting for all who have or expect to have dealings in Wall Street. It is clear that continuation of present tendencies must result in building up in the United States an economic situation of stupendous strength within another six months; and if it be assumed that the economic position of America attains such strength, the conclusion naturally seems to follow that the development will find adequate reflection in the course of security prices. Of course, during such a political upheaval as that now in evi-

dence, it is unsafe to take for granted that tendencies and forces will continue to operate steadily, without check.

At the time of writing the greatest uncertainty or contingency centers around the question whether the United States will be drawn into the war. If the United States is involved in the hostilities, to what extent will the expectations of great prosperity in North America have to be modified?

Probably the modifications required would not be of very great importance. Participation in the war would not have the slightest tendency to reduce the agricultural production in America this year. There is difference of opinion as to whether it would cause a heavy reduction in the shipments of munitions, etc. Some hold that Germany has expected that a declaration of war by Washington would stop the exportation of ammunition, rifles, etc.; others take the contrary position and say that, if necessary, ample means would be found of providing the United States government with the war material it required without interfering greatly with the stream of supplies going forward to the forces of the Allies.

Germany at present has no means of striking directly at the United States, and if the big American republic should be formally allied with Great Britain, France, Russia and Italy, it certainly seems that there would be the fullest measure of co-operation in this matter of shipping munitions.

In the event of an active alliance one might expect that the co-operation with the other nations on the same side would result in America's extending a larger measure of financial support, either through the placing of European government bonds in New York or through transfers of blocks of American securities to this side. The gold reserves now held in the United States are ample for the creation of a very large amount of credits based on short date obligations of the principal European powers; and by using the new machinery created in connection with the Federal Reserve banks and the recently created "acceptance" machinery, it would be possible to finance the prospective huge exports of the fall of 1915 largely by means of book credits. In other words, the great nations of Europe would be piling up in New York a huge amount of short date debt, which would have to be adjusted on conclusion of the war.

Thus, no matter what develops between Berlin and Washington in connection with the controversy over submarine warfare, it is likely that this fall the shipments of munitions, guns, etc., from the United States to Europe will be proceeding on a vast scale; and at the same time there must necessarily be a great volume of American wheat and other foodstuffs proceeding to Western Europe. In case of both the munitions and the foodstuffs the demand is practically certain to be there; and everyone here believes that American manufacturers will see to it that supplies will more or less adequately meet the effective demand.

Financing Europe's Purchases

With reference to the financing of the prospective huge balance against Europe, probably no one as yet knows definitely how it will be done. It is known, however, that the British and French governments are using all their resources to facilitate the purchases and payments of themselves and their allies. It is further known that they have associated with them some of the very strongest financial interests in America; and one may rest assured that between them these parties will in the course of time elaborate a financial scheme that will suffice even for this extraordinary occasion.

It is not at all to be supposed that transfers of gold will take the chief or most important part in settling these differences. Gold transfers of this magnitude would dislocate the various national financial systems too greatly.

Wall Street has always recognized that sales of American securities by England and France represented a possible way of financing the war purchases in part.

While British and French investors in the aggregate hold enough American securities to cover several times the prospective balances due by them, these in-

dividuals are under no compulsion to sell, and in most instances they have no intention of selling at present prices. The average Britisher who holds representative American stocks or bonds is well aware of the favorable outlook for these investments, and he intends to hang on and reap the benefit of any advance which may occur. So, unless there should be a very substantial improvement in Wall Street's quotations, it is scarcely to be expected that sales of American securities by Europe will figure importantly as a means of settlement.

Of course it is to be remembered that England and France will get a considerable amount of credit in the New York exchange market from time to time during the remainder of this year and early next year as a result of the maturity of fixed term bonds and notes. A British holder of such securities could realize them without loss, and perhaps under the circumstances he would not be disposed to take renewals or other American securities such as are substituted in normal times.

However, after allowing for possible gold movements to New York, redemption of matured bonds, etc., sales of American securities, interest payments due to Europe, freights and insurances due to British companies, there will still remain a huge gap to be filled. It is difficult to see how this can be narrowed or closed unless the European governments immediately concerned establish credits in New York on a vast scale.

It may easily be the case at the end of 1915 that New York will hold anywhere from $500,000,000 to $1,000,000,000 short date obligations of the principal European countries. At the same time there might be under certain circumstances very large borrowings by the government at Washington in the domestic market.

Some might suppose that such a huge credit expansion could not safely be made; but when one remembers that it is largely profits or the revenue derived from increased production that America would be lending to Europe, the transaction does not appear so impossible or impracticable.

The point is that the farmers, manufacturers, workmen and others who receive the proceeds of sales made to Europe, will be satisfied to take payment in American banking credits, and in many cases the owners of the funds would allow a considerable part to remain in the form of bank deposits. Thus if the operation were properly distributed through a sufficient number of months and over a sufficient extent of territory, there might be very little disturbance.

Expansion of Credit

In effect it would amount to a great expansion of credits. On the one side there would be perhaps syndicate loans participated in by banks all over the country—those in the great centers necessarily taking large amounts; and on the other the participating banks and others would show heavy gains in demand and time deposits.

At conclusion of the war the syndicate loans would have to be adjusted or retired by Europe. Probably a considerable part of the debt would remain on this side of the Atlantic in the form of long term bonds taken by investors. A large proportion of the advance might be made in that form in the first instance.

Naturally an expansion of credits of this kind—all classes of banks from Federal Reserve down to private banks participating in some way—would be expected to find reflection in Wall Street. It is likely that the stock market would experience periods of buoyancy and great cheerfulness. It is quite possible that the helpfulness prevailing in America would enable the market to absorb very substantial realizing sales by Europe, as the market reached the levels permitting European holders to realize at a profit.

A New Era in Business Organization

What Steel Trust Decision

Means To

"Big Business"

U. S. Steel Decision Marks Beginning of a Period Which Will Perfect Organization of Industry Into Big Units

By G. C. SELDEN

IN ORDER to appreciate the full importance of the court decision in favor of the U. S. Steel Corporation in the dissolution suit, it is necessary to take a broad view of the bearing of this suit on the general question of business organization in America.

For a quarter of a century a large part of the political, economic and social discussion of the day has revolved around the question of *the size of corporate enterprises.* Monopoly, the trusts, the power of the railroads, unfair competition, have been merely different phases of the same problem—the increase in the size of the business unit.

We have continually found ourselves able to do things more cheaply by doing them on a larger scale; but every increase in the size of the business unit has called forth vigorous protests from the smaller business men, who lost trade, and from their numerous sympathizers among the general public.

Moreover, along with the fair and legitimate advantage gained by economy resulting from greater size of business undertakings, has gone, in nearly every instance, some unfair advantage in favor of big business due to the exercise of power—political influence, "freezing-out" of smaller competitors, bulldozing of tradesmen, monopoly profits of some kind, and so on.

The result has been a good deal of confusion in the public mind as to the relative advantages and disadvantages of doing business on a big scale, and this confusion has been reflected in the laws passed by our state and national legislatures and even to some extent in the interpretation of the laws by our courts.

When we stop to get the proper perspective on this question we see that an adequate business organization, suited to the circumstances and conditions of the time, is the most important element in the economic life of any people. For example, if our present business organization should be destroyed and we should suddenly be compelled to return to the conditions of 1715, it would be impossible for the population of this country to sustain itself. And the America of 1715 would have found it equally impossible to use the methods of today. Business organization means nothing at all but *the easiest way of getting a living under the circumstances;* or perhaps it would be more accurate to say, the method by which the best living for the largest number of people can be obtained with the least labor under the conditions existing at the time.

And since getting a living is always the fundamental thing, which must underlie all social, intellectual, artistic and, to a certain extent, even religious progress, it follows that the principal difference between Patagonia and New York is a difference of business organization. The Patagonian wrests his living from nature single-handed, or with only the most primitive and limited organization. The result is that he is inefficient—he does not get a good enough living to enable him to progress. The New Yorker of today is nothing but a cog in a vast machine of economic organization, which has developed in the effort to utilize Nature's resources to the best possible

advantage of the community. The machine, while by no means perfect as yet, is wonderfully efficient as compared with any previous time or any other country.

Business organization, then, is a purely practical question. We have before us the problem of making a living, as good a one as may be. We have learned by experience that we can do it much better by organized effort than by detached, individual effort. The question always is, therefore, What is the most efficient form of business organization *at the time*, taking conditions substantially as they are?

Size Not Necessarily An Advantage

Obviously the organization of business into the largest possible units is not necessarily the best. The form must be adapted to the conditions. New York methods would be useless in Patagonia. The business organization of 1915 would have been nothing but an incumbrance in 1715, when our population was sparse, our resources undeveloped, and safety from savages, pirates and marauders not yet fully assured.

Evidently—after adequate natural resources, which exist in most parts of the world—growth in population is the principal factor in permitting improvement in business organization. A small and scattered population cannot work together advantageously. A large population, especially where densely aggregated, makes possible the application of efficient business methods on a big scale.

Besides increase of poulation there are two other important factors that have led to rapid changes in the forms of business organization — improved methods of communication, and the progress of invention. The progressive development of railway transportation, mail service, telegraph and telephone have made "Big Business" possible; and mechanical inventions have been of very great importance in facilitating large-scale production.

This being true, it follows that so long as our population continues to increase, and our ways of communication, transportation and manufacture to improve, methods of business organization cannot be stationary and cannot reach any perfected or permanently satisfactory form. They must grow with our growth. There can be no such thing as reaching the best possible form, because the form that is best today will be obsolete in twenty years or perhaps in five years.

To take an example, for the production of 5,000 automobiles a year, certain machinery can profitably be used and certain other work can best be done by hand; but for a production of 20,000 cars a year the whole system will be changed. More machinery will be installed, hand work will be eliminated, the organization of the factory will be expanded and improved. And when production reaches 100,000 cars yearly, the 20,000-car organization will in its turn become obsolete. Still more machinery, more sub-division, more and more efficient organization.

The same principle that applies to the mechanical side of a single industry applies equally to the entire business organization of the country. The Carnegie Steel Co. soon rendered its earlier competitors obsolete; in its turn it was set aside by the U. S. Steel Corporation of 1901; and the Steel Corporation of today has for the most part "scrapped" its methods of 1901.

We must look upon different forms of business organization, then, as a process of evolution. The structure of business organization tends to adjust itself to its environment just as surely as an animal or vegetable organism.

What is the place of the U. S. Steel decision recently handed down, in this orderly evolution? What stage of progress is marked by this particular event?

Growth of "Big Business"

It was in the field of transportation that the advantages of combination became evident earliest in America. In the '90s most of the great railway systems of today first took shape. These systems were based largely on geographical and industrial necessities

—they were adjusted to meet the requirements in each case—and that is why they are in existence today, in spite of receiverships, "community of interest" plans, buying for control, adverse court decisions, and all the other vicissitudes through which they have passed.

No sane person would now question the advantages of operating railroads in great systems, rather than in small separate links; yet numerous evils grew out of the increased power which thus accrued to the leading railroad corporations—rate cutting and unjust discrimination, abuse of passes, political lobbying, oppression of weaker roads by unfair competition, the favoring of one locality against another, and so on. It soon became evident that increased Government control was the only adequate remedy, and that was gradually established through State and Government commissions. Doubtless it has now been carried to an extreme, but, if so, that evil will remedy itself in time. The most important point to be noted is that we have retained for the benefit of the community the advantages of railroad combination while gradually eliminating the evils which at first accompanied it.

In the field of manufacturing, the principle of combination on a national scale was not successfully applied until the late '90s. Numerous great individual plants had been built up in every line of industry, and it wanted but the persuasive voice of the far-sighted promoter to link these plants into systems similar to the big railway systems.

Earlier efforts at combination had been confined to placing the separate plants side by side and driving them abreast, as it were. Genuine success was not attained until the team was harnessed both tandem and abreast. That is, the most successful combinations were not those embracing only plants which bought iron ore in one place and coke in another, and thus made and sold pig iron; they were rather the combinations which took in the iron mines, the coal mines, the manufacturers of coke, the railroads which assembled the materials, the steel plants and the factories which turned the steel into cooking ranges or whatever the final product might be.

Early in this process of combination the people had become alarmed at these Frankenstein corporations which were germinating in their midst, and the Sherman Law was the result; but the Sugar Trust case seemed to pull the teeth of that law by deciding that it applied only to commerce and that manufacturing was not commerce.

There matters rested, from the legal standpoint, until the Northern Securities decision of 1904, when the court held that the necessary result of putting two parallel and competing railroads under the control of one holding company would be to stifle competition, and therefore the combination was illegal even though no overt illegal act had been performed.

In 1911 the Standard Oil and Tobacco decisions came at the subject from a different angle. These companies were dissolved because they had used their power to suppress legitimate competition, and the court was convinced that their power in their respective industries was so overmastering that the only remedy was to break them up into smaller companies. At the same time the court disposed of Justice Lacombe's noted conclusion that two expressmen running their wagons across a state line could not combine without breaking the law. This was done by emphasizing the old principle of law that even a statute has to be interpreted by the courts in the light of reason.

The next mile-stone was the Southern Pacific case, which followed the same lines as the Northern Securities decision; but in this instance it was plainly indicated that a combination of connecting railroads was not likely to be considered contrary to law, since it did not interfere with competition as would a combination of parallel lines.

Effect on the Public

The effect of these various decisions on the public mind had been rather

unfortunate. The general feeling, scarcely crystallized into definite words, was that various corporations had been dissolved because they were so big as to be dangerous; and it was hard to lay hold of anything in the various decisions finally and conclusively to dispose of this idea.

It was along this line that public opinion was divided. One opinion was that all the big business combinations were injurious to the public interest and should be broken up and that this would reduce the cost of living; the other was that the Government and the courts were yielding to the demands of demagogic agitators and pulling down the carefully-built structure of modern business.

Into this confused situation the U. S. Steel decision was shot like a ray of light. When the biggest corporation in the world is exonerated, it can no longer be asserted that the courts are condemning mere size. The Steel company won because it had not employed unfair methods toward competitors—had not, in fact, grown as rapidly as other steel companies—had not attempted to monopolize trade and its ability to do so if it wished could not be conclusively proved. Alleged price-fixing at the famous "Gary dinners" is declared to have been contrary to law. The opinion is expressed that the intent of those forming the corporation in the first place was "to monopolize and unduly restrain trade." But the fact is made clear that the decision is based, not on the size of the corporation, but on its attitude toward its competitors.

It is true that the decision is by a lower court and may be appealed to the Supreme Court; but the ruling so clearly conforms to the principles already laid down by the Supreme Court that the chance of reversal seems very small.

From this decision one section of the public learns that, while big corporations may assume a dangerous attitude, they are not dangerous because they are big; and another section learns that the courts are not pulling down any solid structure of business, however big, but are condemning unfair, monopolistic, or coercive methods of building up any business, however small.

A New Era

Broadly considered, then, the Steel decision is another step in the age-long process of adjusting the organization of industry to existing conditions of geography, natural resources, population, means of communication, advancement in science, mechanics and the practical arts. It is a step in the adaptation of economic organization to environment.

It will mark the beginning of a new era in business organization because it marks the conclusion of the main part of the work of interpreting the Sherman Law. Subsequent decisions may elucidate various details, but it is this decision which really sets the public right as to the policy of the Government and the courts toward big business. There is no longer any reason why great business enterprises should not be developed on the largest possible scale, with a view to two things only—efficiency and justice.

Moreover, our great industrial corporations are now in just the position to go ahead with this line of development. The experimenting, the pioneering has been done. The methods of handling manufacturing on as large a scale as transportation is now handled, have been blocked out, proved feasible, and improved upon from year to year; but they have not yet been perfected. In economy and efficiency the industrial corporations are still behind the railroads.

As the country grows in population and wealth the business unit must grow with it. Small-scale production must give way to large-scale. The methods by which this growth may be accomplished have now been pretty well outlined by the courts and large-scale production is already well under way.

Big Business will justify itself to the people. It will demonstrate its ability to succeed by more efficient and economical methods of organization, rather than by suppressing competition or controlling prices.

MONEY - BANKING - BUSINESS

What Thinking Men Are Saying

About Financial, Investment and Business Conditions

"The Day of the Dollar."

THE extraordinary decline in foreign exchange has attracted universal attention. This has raised the premium on the American dollar to about 2 per cent. at London, 5 per cent. at Paris, 15 per cent. at Rome, 14 per cent. at Berlin, and about 25 per cent. in Austria and Russia.

Of course, all these countries claim to be on a gold basis, but the exchange rate tells the tale—their currencies are at discount when measured in gold. Foreign banks are hoarding gold, so that their supply of that metal is not lacking, but for the holder of paper money to get gold in exchange is altogether another story.

There are three ways for Europe to meet the situation—by shipping us gold in large quantities, by selling back to us a much greater volume of our securities, or by arranging for large credits with our bankers.

If gold is not shipped heavily enough to support the exchange rate, nor a sufficient credit arranged for here, then the fall in exchange will afford foreign holders of our stocks and bonds a very strong inducement to sell, since it will give them a profit equal to a large advance in the price of their securities.

John E. Gardin, vice-president and foreign exchange expert of the National City Bank, says:

> Gold is the only money that can be used in the settlement of international balances, and if the war continues very much longer—thus preventing the influx of commodities from the other side as an offset to our exportations—the probabilities are that the foreign exchanges will go on a much more depreciated basis than they are at the present moment.
>
> The amount of gold held by European nations is absolutely needed for the support of their enormous issues of paper money, which, according to present statistics, are only covered to the extent of about 30 per cent. in gold, and therefore the use of any this gold in payment of foreign debts is absolutely precluded.

BREAKING THE RECORD.
—*N. Y. World.*

We are shipping enormous quantities of material, so that for the last ten months of the record year the balance of trade, as shown by the Custom House statistics, is $850,000,000.

The question now uppermost in our mind is, How is Europe going to pay for this enormous exportation of merchandise?

* * *

War Orders Total Perhaps $1,500,000,000.

WALL STREET'S estimate of the total of war orders placed in this country since the war began is $1,500,000,000. Perhaps this is an over-estimate, for statisticians always enjoy a long string of ciphers, yet we must remember that we are dealing with wholly unprecedented conditions so that unprecedented figures must not surprise us. Every cartridge company in this country is reported as sold out up to the end of 1916.

In the earlier months of the war our exports to Europe were mostly foodstuffs, copper, cotton, horses and mules; but now the manufactured war materials

are beginning to go forward. In April guns, cartridges, motors, metals, chemicals, etc., for war use amounted to $30,000,000. The May figures have not yet been published in detail, but they will be much larger than April. Over $6,000,000 of automobiles and trucks were exported from New York in April, and this trade is constantly growing.

To offset this situation and support the rate of exchange, English and French bankers are maturing a plan by which foreign holders of American securities may deposit them abroad in exchange for war bonds, and the American securities may then be forwarded to this country and used as collateral for large credits to be extended by our bankers.

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Command of Iron Will Win the War

WITH the tremendous expenditures of ammunition made necessary by modern war methods, command of the necessary metals assumes the highest importance. The principal war metal is iron. Germany, having control of Belgium and of at least half the iron-producing capacity of France, far excels the Allies in supplies of pig iron. The *Times* presents the situation as follows, basing its figures on annual production for 1913:

Germany's Control of Pig Iron.

	Thousand Tons.
Germany	19,000
Austria-Hungary	2,335
Belgium	2,319
France (50 per cent.)	2,612
Total	26,266

The Allies' Control of Pig Iron.

	Thousand Tons.
Great Britain	10,500
France (50 per cent.)	2,612
Russia	4,475
Italy	420
Total	18,007

The rest of Europe is negligible. Russia has been receiving ammunition from Japan, but Japan's resources in raw iron are relatively unimportant. The United States is the only great non-European source of iron and iron manufactures, and its potentiality is more than three-quarters that of the whole of Europe. In 1913 it produced more pig iron than Germany and Great Britain together, or thirty-one million tons, against Germany's nineteen and Great Britain's ten and one-half million tons.

It is clear enough, then, that the Allies must continue to buy iron products heavily in this country, provided their credit holds out. And it must be remembered that a premium on gold, as above described, is a very different thing from actual exhaustion of resources. As the *Press* says:

Because of the many, many millions uneconomically expended in peace, but going now into the war, and because much the greater part of all war expenditure by a nation is always paid out within its own boundaries and to its own people, a nation can spend on war a great deal more than its annual savings and yet not show financial distress for a long, long time. It might even spend more on a long-drawn-out war than the total of its estimated wealth at the beginning of the war without reaching the point of economic exhaustion.

This is why it is idle to talk of early economic exhaustion for any of the great Powers now engaged in the war. It has been the history of war, in ancient and in modern times, that the very last thing to become exhausted, in a nation fighting and resolved to go on fighting an enemy for its life, is its economic resources.

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Adjust Yourself to the "Crushing Inevitable!"

THE views of Prof. S. N. Patten, Wharton School of Finance, usually differ widely from those of most other political economists, but are always so interestingly presented as to command attention and stimulate thought. In a recent article in *The Annalist* he tells us that owing to the increasing extravagance of the people, the interest rate must rise in order to induce the accumulation of capital. The middle classes "have ceased to save" and the rich face "virtual confiscation" through increase of taxes. Hence, at a time when capital is being wasted in war faster than ever before, new capital is scarce:

The equilibrium between industrial needs and private expenditure can be attained only in one way—the rise in the rate of interest. Present interest rates are too low to make an effective appeal. High interest rates will do what neither moral exhortation nor religious denunciation can effect. The flow of new capital will come only when its return is greatly increased.

How much the increase must be is hard to say, as we cannot be sure that the new conditions have as yet manifested their full effects. We can, however, estimate the change that those now visible will create when their effects are fully worked out.

Under the old conditions the interest rate on safe investments was about 4 per cent. The new conditions will demand at least 6 per cent. But this does not mark the limit of the change, for the rate of taxation has risen, or will soon rise, so as to make a 2 per cent. additional burden on capital. The net return of industry must then be above 8 per cent. to make industry remunerative. All less profitable industrial ventures must cease, and those of greater profit must adjust themselves to the new condition.

A lower valuation of farms, city real estate, stocks and bonds, and other securities must inevitably result. A 4 per cent. bond on a market where the actual rate of interest was 6 per cent. is not worth more than 70 per cent. of its face value; and if an addition of even 1 per cent. is made to the tax rate, the value would fall to 60 per cent. of its old value.

Other forms of securities suffer even more. Farms should fall to 50 per cent. of their present value, city real estate to 40 per cent., while stocks may sink almost to zero unless increases in productivity come from unexpected sources.

These figures are, however, personal estimates. Any one with a knowledge of arithmetic can figure out the solution as well as I. He can also make the allowance for other factors to suit his belief or caprice. The results will be startling in any case. History will record the result. They are to be pitied whose estimates are incorrect, or whose condition prevents an adjustment to the crushing inevitable!

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Will the Steel Suit Be Dropped?

WHILE the Attorney-General has announced the appeal of the U. S. Steel dissolution suit to the Supreme Court, many lawyers are inclined to doubt whether the Government really expects to win before that tribunal. George H. Perkins, who is one of the directors of the big corporation, is much annoyed by the appeal and expresses himself freely:

The case is of extreme importance and if the Wilson Administration had given this as its reason for believing that the case should be carried to the Supreme Court, where a final opinion could be had, a great many people would have approved; but no right minded person can approve the reason given by Mr. Gregory, which is as follows: "While the case against the United States

THE GOOD LITTLE BOY IN A TOUGH NEIGHBORHOOD.
—*N. Y. World.*

Steel Corporation was instituted by the last administration I am in complete accord with the views on the law upon which it is based. Of course it will be taken to the United States Supreme Court."

This places the Wilson-Bryan-Gregory Administration squarely on record as indorsing the course taken by Messrs. Taft and Wickersham when they brought suit to dissolve the Steel Corporation.

The reason given for this appeal is flat notice to every business concern in this country that the Wilson-Bryan Administration is still under the influence of the Bryan platform of 1908, which declared that the solution of the trust problem lay in the dissolution of our large industrial corporations.

All this is done, notwithstanding the fact that President Wilson has told the country repeatedly that "the mists and miaomic airs of suspicion that have filled the business world have now been blown away"; that "nobody has been suspicious of any business merely because it was big, but only when it was thought that bigness was being used to take an unfair advantage"; that "the road lies clear and firm before business"; that "it is a road which it can travel without fear of embarrassment"; that "there is nothing more fatal to business than to keep guessing from month to month and from year to year whether something serious is going to happen to it or not, and what in particular is going to happen to it if anything does"; that "it is impossible to forecast the prospects of any line of business unless you know what the year is going to bring forth," and that "a new day has dawned for the beloved country whose lasting prosperity and happiness we so earnestly desire."

Are Railroad Earnings Now on Rock Bottom?

THAT they are is the view of Robert Fleming, chairman of the Investment Trust Corporation of London:

I was asked to be a member of the reorganization committee of the Wabash Railroad, and that has brought me in touch with points which are not without instructive interest in that respect. Here are some points brought out by the investigations of the Wabash committee: (1) The cost to reproduce the property today would be at the lowest calculation $250,000,000. (2) In the year ended June 30, 1914, the net earnings after taxes were $3,653,000, being less than 1½ per cent. on its value, or, if you deduct 5 per cent. interest on its rolling stock, only 1 per cent. on the value of the property. (3) The company paid $1,044,309, or 28 per cent. of its meagre profits, in taxes. (4) Its gross earnings were $12,000 per mile; its net earnings were $1,440 per mile, equal to only 12 per cent. of its gross. These figures must suggest to the mind of any one accustomed to estimate railway values that any change in American railroad profits is likely to be for the better.

The American public are, it would appear, at last beginning to see that the railroads have not been fairly treated, and I cannot but think that the worst has passed.

As yet, however, the roads are showing but slight improvement in earnings. The *Odd Lot Review* estimates earnings of some of the principal roads for the 1915 fiscal year as follows:

Name of Road	Dividend	Earned 1914	Earning 1915
Atchison	6%	7.34%	8.25%
Balt. & Ohio	5%	4.50%	4.53%
C., M. & St. P.	5%	6.33%	5.67%
C. & Northw'tn.	7%	7.93%	7.47%
Great Northern.	7%	8.85%	9.26%
Illinois Central	5%	7.45%	7.22%
Kansas City So.*	4%	8.22%	7.25%
Lehigh Valley	10%	11.65%	12.75%
Louisville & N.	5%	9.28%	7.15%
Norf. & West.	6%	8.68%	8.44%
Northern Pacific	7%	7.93%	7.70%
Pennsylvania	6%	6.83%	6.60%
South. Pacific	6%	7.50%	6.84%

*As applied to preferred stock.

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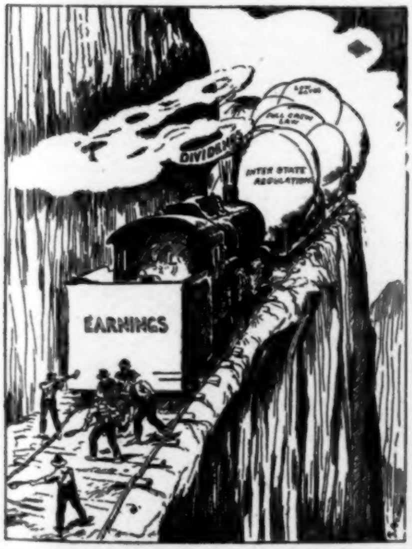


"ALL THE TRAFFIC WILL BEAR."
—*Railway World.*

Elliott and Ripley Comparatively Cheerful.

TWO of our leading railroad presidents have lately had occasion to express themselves in regard to the prospects for their respective roads:

Howard Elliott, president of the New York, New Haven & Hartford: For the last two years the company has been in dire financial straits. It has been compelled to introduce the severest economies in all departments, and even greater economies must be introduced and continued for an indefinite period.

I have been very busy for a year and more trying to obtain remedial legislation in the States of Connecticut, Massachusetts and Rhode Island which would lead to primary steps for funding the debt of the company at a reduced rate of interest, and I am glad to say that that legislation has been passed. The legislative sessions have ended with improved and more cordial relations between the company, the public, many business organizations, and the representatives of the State Government, which is a valuable asset for the future. A most important result of the passing of these laws is that they mark a starting out of a course of constructive work in helping to build up the New Haven Road and the New England transportation business.

President Ripley, of the Atchison, Topeka & Sante Fe: We have a considerable number of bonds which we can put on the market when we think advisable, but until the market improves we shall not put them out. We are in no hurry.

The economic prospect of the West and Middle West served by our company is good. The crop outlook never was better, and the grain movement should be heavier this year in consequence of the war.

To railway men it is gratifying to see that the attitude of the public generally toward corporations is becoming more benevolent. Our gratification would be complete

were certain high positioned officeholders to experience a change of heart. We still have La Follettes and Cumminses with us, statesmen whose political capital consists of fomenting sentiments unfavorable to the railways. Perhaps later the better feeling toward corporations will reach them, in which we must include the Administration.

* * *

Stock Market Awaits German Note Calmly

EVIDENTLY owners of stocks are not able to make the idea of a war with Germany seem real to themselves. They talk about the possibility with a detached and theoretical interest, but they do not sell their stocks. Perhaps one reason for this is explained by the first of the quotations given below:

Wrenn Bros. & Co.: It is an important consideration at this time that a war with Germany, should it occur, would apparently have almost none of the ordinary disturbing effects. Commerce would flow through no different channels, because Germany is already eliminated from the international trade of the world, production would not be disturbed in this country, because those of our industries which produce for the German market have already suffered the maximum, and our money markets would probably not be seriously affected, not only because we have such an abundance of uninvested liquid capital but also because new bond issues are already being floated practically at war time yields.

We therefore venture the opinion that the stock market is not dependent except for minor movements upon the outcome of the negotiations with Germany. A serious outcome would doubtless cause a sharp break, but we do not believe it would result in disaster or even in a broad bear movement.

Hayden, Stone & Co.: If any doubt remained as to the character of this market, it would seem as though it must have been dissipated by recent events.

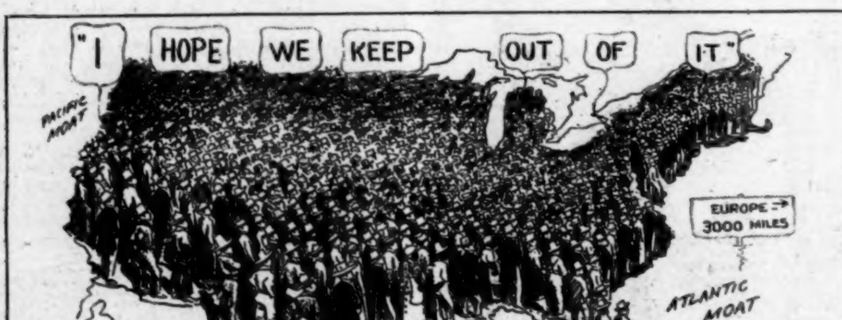
Let us look, for a minute, at the record of the past month.

About a month ago occurred the torpedoing of the Lusitania, an event entirely unexpected; a phase of the war to which the market had not become accustomed. When people came to realize what this terrible disaster meant and what it might involve, prices at once broke ten to twenty points. The next event was the torpedoing of the Nebraskan, an American ship carrying, as it was believed at the time, the American flag. The market responded to this by something of a reaction, but nothing like that following the Lusitania disaster.

Next, the Secretary of State resigns because he fears that the President's course may plunge this country into war. This has caused only a momentary ripple. We are loath to use the term "shock proof," but it would almost seem as though the market had reached such a condition. Its position must certainly have been a great deal stronger than was generally believed.

Clark, Childs & Co.: What seems to us the great and important fact bearing on the financial situation is that we are on the verge of a period of great national prosperity, and that this will result from the inflation process which is already at work, and which cannot well help advancing the prices of products of the soil, products of furnaces, products of the mines, and the non-fixed-income securities of our substantial railroad and industrial concerns.

We consider that the time has come to dispose of low-rate, high-grade, fixed-in-



—McCutcheon in the New York *Evening Mail*

"THE AMERICAN NOTE."

come bonds and preferred stocks and to reinvest the proceeds in the common stocks or convertible bonds of railroad or industrial companies which are in line to enjoy the benefits of the period of inflation that seems to be in store for the country. In the United States we are getting in line for what we may call a *safe inflation*. We are getting gold from new production, and we are getting it from nearly all the nations at war to pay *in small part* for the things they are buying from us. They, however, are in the midst of a *dangerous inflation* at home, because their proportion of unsecured currency and treasury obligations to gold is steadily and alarmingly increasing. Our interest bill to the rest of the world is daily being reduced, as are the foreign holdings of our securities.

If Mr. Wilson's efforts to preserve peace are successful, we can see but these results:

First—Tremendous stimulus to industrial development and railroad traffic.

Second—higher rates for long loans, meaning lower prices for ordinary bonds, since the net income returns from such issues will buy less of the necessities of life at higher prices.

Third—Higher prices for common stocks and phenomenal gains in railroad income.

Wilson & Chardon: Underlying conditions of the stock market make for higher prices. Not that we expect stocks to run straight up; there will be plenty of ups and downs, but the ascendency of the United States in the financial and general business world as the result of the European war, helped by:

Bountiful crops.

Abundant supply of cheap money.

Less antagonism to corporations, as illustrated by the far-reaching effect in the U. S. Steel suit decision.

Improving sentiment in the business community the country over.

These and other factors combine in our judgment to point to a period of prosperity, accompanied by expanding and advancing stock markets for the next two years.

* * *

Effect of Inflation on Price of Wheat.

THE Government's June forecast indicates a record-breaking crop of wheat for 1915, and to break the record of 1914 will be no small achievement. In fact, if the June condition should be maintained up to the end of the year, the country would raise a round 1,000,000,000 bushels. In spite of this big prospect, however, Renskorf, Lyon & Co. believe that relatively good prices will be obtained:

Quite aside, however, from the usual features pertaining more properly to the grain trade, there has arisen one which cannot be ignored or lightly treated. That is inflation the world over. In Europe there is paper inflation due to war and this country gold inflation (plus expansion of credits due to our new banking laws). As the London *Statist* recently observed: "The United States are swimming in a sea of Gold." To this an appropriate amendment was made by one of our New York newspapers, "a sea of *idle* gold," as is fully attested by the money rates which have ruled for months.

The London *Economist* shows the index number on commodities as 33 per cent. higher than last July. The older generation of merchants need only turn to 1878-79 to learn the result of our domestic inflation due to resumption of specie payment. It was then that wheat, which was quoted at 77 cents in October, 1878, rose to 1.33½ by December, 1879, or a rise of 75 per cent.

With existing world conditions, is not wheat intrinsically or economically worth about what it is selling for today?

Hints for Investors

There are some general railroad mortgage bonds better than underlying bonds because the general mortgage issues are a lien on the principal parts of the line and therefore on the vitals of the company while the divisional bonds in many cases are a line on parts of the line that could be spared if necessary.

You need not hold the stocks of a company to catch the benefit of improving earnings. If you see the trend of earnings is upward and you do not wish to hold stocks you can do well by picking the junior bonds of the company which are almost certain to have a rise in proportion to the betterment of the earnings and the improvement in the stock.

Look to the margin of safety of the particular bond you have under consideration. It may be very high, whereas the margin of safety for the whole outstanding bonded debt may be rather low. This low margin affects the price of some bonds adversely, really more than it ought.

Better Business in Progress

Bank Reserves Growing—Failures Smaller—Steel and Copper—Crop Conditions

THE only reason that money rates remain unchanged month after month is that they are already as low as they can get—3¼ per cent. for six months paper and 2 per cent. call money representing practically the minimum under any conditions. Reserves are still piling up and it will be noticed that the per cent. of loans to deposits for banks in the New York Clearing house (omitting the trust companies) is now down to 93.5. This is abnormally low. It indicates that the supply of available credit is far greater than the demand. Such a condition has never failed to work out eventually into more active business conditions.

Another indication pointing in the same direction is the drop in business failures for May. The total of liabilities, $19,601,000, was just about normal for the month, while for April it was double the normal. The number of firms failing has decreased steadily this year as follows: January, 2,613; February, 2,072; March, 1,983; April, 1,877; May, 1,574. Some decrease is natural at this season, but such a rapid decline indicates improving business conditions.

Bank clearings do not as yet indicate much increase in the activity of trade. The month of May showed a little more activity at New York than last year, but taking the country as a whole comparative dullness was shown, and continues to be shown for June down to date.

In iron and steel a decided improvement is noticeable. Prices have hardened slightly and iron production has increased steadily for five months in succession, from 1,516,000 tons last December to 2,263,000 tons in May. The U. S. Steel Corporation's unfilled tonnage is also growing, in spite of the fact that the big company is now operating at 80 per cent. of capacity. U. S. Steel must benefit, either directly or indirectly, from the tremendous war orders that have been placed here recently.

While the price of copper is now high, there can be no assurance that it will not go still higher in view of the gigantic demand for ammunition. It is plain that ammunition will win the war, hence copper must be in good demand so long as the war lasts.

Although the government reduces the condition of winter wheat considerably for June, the spring wheat prospect is very high, and the outlook is for an excellent yield on a very large acreage—with a possibility of 1,000,000,000 bushels.

		Average Money Rate Prime Commercial Paper New York.	Average Money Rate European Banks.	Per cent. Cash to Deposits, New York Clearing-house Banks.*	Per cent. Loans to Deposits, New York Clearing-house Banks.*	Bradst's Index of Commodity Pcs.	English Index of Commodity Pcs.
June,	1915	3¼	5	20.1	93.5	9.73	3,327
May,	1915	3¼	5	20.5	94.7	9.79	3,337
April,	1915	3¼	5	19.8	95.2	9.77	3,305
June,	1914	3⅞	3½	27.6	94.7	8.62	2,595
"	1913	5⅞	4⅓	27.7	98.8	9.07	2,694
"	1912	4	3½	26.7	96.3	9.10	2,687
"	1911	3⅝	3⅜	28.1	95.7	8.53	2,540

*Affected by the new Federal Reserve System.

		Total Bank Clearings of U. S. (Millions)	Bank Clearings of U. S. Excluding N. Y. City (Millions)	Balance of Gold Movements —Imports or Exports (Thousands)	Balance of Trade —Imports or Exports (Thousands)	Building Operations, Twenty Cities (Thousands)	Business Failures, Total Liabilities (Thousands)
May,	1915	$14,620	$5,985	....	....	$54,665	$19,601
April,	1915	15,008	6,196	Im. $15,389	Ex. $133,894	49,380	38,773
May,	1914	13,164	5,926	Ex. 14,862	Im. 2,548	52,825	20,469
"	1913	14,119	6,157	Ex. 7,906	Ex. 60,883	50,641	15,726
"	1912	14,814	6,034	Ex. 1,104	Ex. 19,682	59,434	14,064
"	1911	13,524	5,566	Ex. 1,802	Ex. 23,338	42,663	14,160

		Wholesale Price of Pig Iron	Production of Iron (Tons) (Thous'ds)	U. S. Steel Co. Unfilled Tonnage (Thous'ds)†	Price of Electro. Copper (Cents)	Crop Conditions. Winter Wheat	Crop Conditions. Spring Wheat.	Crop Conditions. Cotton.	Babson's Bond Average
June,	1915	$12.40	.....	.....	20.5	85.8	94.9	....	88.8
May,	1915	12.40	2,263	4,264	18.6	92.9	....	80.0	89.2
April,	1915	12.34	2,116	4,162	16.9	88.8	....	....	89.8
June,	1914	13.63	2,093*	3,998*	13.6	92.7	95.5	74.3*	92.5
"	1913	14.06	2,822*	6,324*	14.6	83.5	93.5	79.1*	91.4
"	1912	14.26	2,512*	5,751*	17.2	74.6	95.8	78.9*	97.3
"	1911	13.44	1,893*	3,113*	12.3	80.4	94.6	87.8*	98.3

*May. †Last day of mo.

BOND DEPARTMENT

Exchanging Your Securities

How Much Can You Accomplish by Doing It at This Time?

By FREDERICK LOWNHAUPT

THE word has gone forth from all the fountain heads of security market wisdom such as the statistical bureaus and the like that it is time to buy securities—at least to buy stocks. The question arises is it time to buy bonds and short time securities?

Immediately another question is suggested. If one has any of these securities, is it time to get out of them and take up another class? Can much be accomplished by such an operation?

When the markets are very low the question of exchange hinges on the consideration of advance in prices. That is, when a very low level of prices prevails it affects all securities. Then a little scientific trading gets you out of those which are not likely to rise fast or far and into those which have the possibilities of large appreciation.

In doing so, however, you come up against the question of quality. High grade securities will have a rise in a which are not likely to rise fast or far relatively as the cheaper quality things because they have not fallen so low.

It is therefore comparatively easy for an investor to trade out of one class into another for larger profits because precedent and experience have taught which class catches the benefits of a large advance in the markets. In a word it is the class of largest speculative possibilities that has the longest swing in prices.

Before the investor may be sure of his ground he must answer a number of questions else his exchange might put him in a worse position. There are times when some or all of these questions are more or less easily answered. At other times expert opinion is puzzled to know the answer.

Here is a little catechism that every investor should study when he wants to "swap horses":

Q. 1. *Why do I want to make an exchange?*

One of these four considerations will be the answer:

Greater income.
Greater safety.
Avoid depreciation.
Possibilities of appreciation.

Q. 2. *What shall I let go?*

Which should be answered about like this:

Those things which show the least depreciation from the point where bought.

Those things which are not yielding me an income compatable with what I can get on equally good securities at the moment.

Those which have back of them a record of mediocrity in the way of earnings.

Q. 3. *What shall I take up?*

Which can be settled satisfactorily in about this way:

The cheapest among those securities which have a big margin of safety.

The best of those which are off considerably from their high price.

The best of those which are likely to enjoy the benefits of the next expansion in business.

Q. 4. *For what period is this exchange to be made?*

This period to last about as long as follows:

Until the income return on the high class stocks I hold is hardly better than many bonds.

Until I have secured approximately the benefits of the advance brought about by better industrial conditions.

Until money rates creep up to a point where the incentive to hold stocks and bonds for good income will have lost much of its force.

Q. 5. *What will be my position as to safety after I make this exchange?*

My position will be indicated by these tests:

Whether I changed from high grade to low grade stocks.

Whether I changed from high grade stocks to medium grade bonds.

What proportion of each class of security I hold, that is, bonds or stocks and whether conservative, semi-investment or speculative.

It will be seen at a glance that there are a few big considerations involved; namely, money rates, industrial outlook, fundamental position of any particular company. Then it is necessary to classify the securities you are leaving and those being taken up such as high grade, medium grade, poor bonds and one other —convertibles.

And with stocks, high grade, medium and low grade. Then there is still another class of security, the short term note.

We have now all these factors in which to work out a favorable exchange. First of all it must be decided for what reason the exchange is being made. At the present time you get fine prospects for appreciation and along with it a bigger income than for some time past. Witness the high grade railroad stocks. On such issues at Atchison, Union, St. Paul, Great Northern, Northern Pacific, Pennsylvania and the like you can right now get an average of practically 6 per cent. income over a fairly good selection. At the high prices of 1912, which was by means a bull market year, the average over the same group stood a full 1 per cent. or more lower which means quite a difference in price.

So that beside getting a good income now the possibilities of an average appreciation of from 10 to 20 points seems possible over a reasonable period. At a time like this an investor is reasonably safe to get out of his medium grade bonds and into high grade stocks.

Exchanging medium grade bonds for high grade stocks looks like a money making proposition. It has its advantage from three points of view, first to get more income, second you get a practical equivalent in safety and third you get the possibilities of appreciation.

As for short term notes, there is nothing to be gained by getting rid of them since they yield a high income and are almost equivalent to cash in that they mature soon. Possibly they might be worked out into medium grade bonds for the appreciation in bond prices.

There are so many combinations that might be worked out that any short outline must be far from complete. The position of the individual investor must decide to a certain degree how far he shall go in this matter of exchange. Conference with the investment banker will accomplish much although the average bond dealer will not take very strongly to exchanging fixed interest bearing securities for stocks whatever be their quality.

Therefore, I should give an arrangement such as the following for the wide awake investor who wants to get the *maximum efficiency* out of his dollars over a period such as seems to be ahead of us. For the investor, however, who does not want to give the time and attention necessary to make his dollars work harder there is nothing more to do than stay where he is and cut his coupons regularly.

Out of

High grade bonds (partly)
Medium grade bonds
Poor grade bonds
Short term notes

Into

Medium grade bonds
High grade stocks
Medium grade stocks
Medium grade bonds.

By "High Grade" bonds I mean those yielding the investor up to 5 per cent.; medium grade bonds those yielding 5 per cent. up to 6 per cent; poor bonds those yielding upwards of 6 per cent. High grade stocks are of course those already mentioned with the possible addition of the very highest grade industrial preferred issues.

It will be noticed that the better class of bonds (those of the ultra conservative kind) are slighted. They will probably enjoy some betterment, but not in proportion to the other securities mentioned.

Right here enters the big question that is being debated by all the thinkers along economic and investment lines and that is:

What will be the course of money rates over the next three years?

Everybody is trying to guess what effect this will have on the trend of security prices. We have therefore three questions in this one, as follows:

What will be the trend of interest rates?

What will be the trend of bond prices?

What will be the trend of stock prices?

From what I have said already it is apparent that I believe the trend of money rates is not going to be such as to affect the prices of securities adversely, either bonds or stocks for some time.

It has been argued that after the war interest rates will be abnormally high and the price of bonds will decline. Many arguments may be brought for and against this premise. It is not easy to believe that the available funds of this country will rush abroad for loan to foreign governments. Some money may go but the amount will not be sufficient to affect the level of interest rates so severely. Our position is peculiar at the moment and will become unusual later on. For at least some months the money conditions here will be abnormally easy which fact is likely to have its logical outcome in better security prices. There are still other indications that the prices of fixed interest bearing securities are not likely to decline for some time.

Upon this situation the investor can predicate his exchanges such as have been suggested.

Here then are the elements of each of one of these questions to consider when studying the movement of interest rates and prices over the next few months, possibly two years or more.

Course of Interest Rates

Length of the war.
The position of the U. S. as a lender of money.

Movement of Bond Prices

The pent up investment demand in this country
The cheapness of money.
The effect if stocks have a big rise.
Effect of new financing if general business improves.

Movement of Stock Prices

Increasing industrial and railroad activity.
Cheap money.
Tremendous amounts of credit available.

$500 Bond Investments

We give herewith a few $500 convertible bonds all of which appear good investments around present prices. Convertible bonds as a rule fluctuate more than other bonds as they are guided largely by the market price of the stock into which they are convertible.

Most of our readers no doubt know that this kind of bond at the option of the holder can be exchanged at a specified time into the stock of the company which issues them, at a specified price. Convertible bonds are usually a direct obligation of the issuing company, but not a mortgage. This rule, however, does not always follow.

Five hundred dollar bonds can also be purchased on partial payments for an initial deposit of $75, and subsequently monthly payments of $25.

Description.	Int.	Due.	Market Price About	Yield About
Balt. & Ohio Conv..	4½%	1933	86½	5.66%
Chic., Mil. & St. Paul Conv.	5%	2014	103¾	4.82%
Chic., Mil. & St. Paul Conv.	4½%	1932	97½	4.75%
N. Y. Central Conv.	6%	1935	103¼	5.75%
South. Pacific Conv..	5%	1934	100	5.00%

How to Invest Your July Interest

The $100 Bond

What It Is and How to Buy It

By ROGERS H. WOODS

CONTRARY to the general opinion, $100 bonds are not a new form of investment, for in the case of a number of bond issues that have been outstanding for ten and even twenty years a portion of the issue is in denominations of $100. These "baby bonds," as they are often called, are exactly the same in form and security as the $1,000 denomination—the one and only difference being the amount of their face value. This fact alone has been one of the greatest difficulties which the specialists in $100 bonds have had to surmount. The mere term "bond" has in itself a certain high standing meaning, which to people of moderate means seems to imply something far beyond their reach and it has not always been easy to convince them to the contrary.

For people who are dependent primarily upon the safety of their principal and assurance of the income from it, a secured investment is the appropriate and logical medium. Hence the growing popularity for $100 bonds.

There are, of course, some stocks which have a proven investment value and which may be construed as far more satisfactory investments for people of comparatively moderate means than some bonds. Inasmuch as the investment houses that are specializing in service to the small investor appreciate that their success is dependent upon the prosperity of their customers, a great deal of care is being taken to only recommend to these investors bonds and stocks of the better classes.

For investment purposes particular stress has been laid upon the desirability of $100 bonds. With a few exceptions the people who buy $100 bonds do so entirely for investment purposes, regardless of the changes in price which the rest of the market may experience, and retain the bonds, incidentally showing good judgment in doing so, for their intrinsic investment value is in no way impaired. Even for people who can afford to buy larger denominations, $100 bonds supply an opportunity of diversifying even a comparatively small investment so that an high degree of safety is obtained coupled with a good rate of return and stability of value.

High grade issues which are continually in demand are:

Norfolk & Western 1st Consolidated 4s, 1996.

Chic. Mil. & St. Paul Conv. 4½s, 1932.

Chic. Mil. & St. Paul Gen. & Ref. Mtge. Conv. 5s, 2014.

New York & Greenwood Lake Prior Lien 5s, 1946.

Virginian Railway 1st Mtge. 50-Yr. 5s, 1962.

In the class of bonds which offer possibilities of appreciation and which are not quite as stable investments as the railroad issues mentioned, the greatest favorite is:

Bethlehem Steel 1st Lien & Ref. Mtge. 5s, 1942.

Public Utility bonds in denomination of $100 are probably bought in greater quantities than either the Railroad or Industrial issues. The obvious reason for this is that the earnings of the companies engaged in the most necessary branches of the public utility business are of a very stable character. This is naturally reflected in a firm intrinsic value for the bonds and makes them perhaps the most suitable bonds for the small investor. They combine a high degree of safety with a more liberal rate of return than either a rail or industrial issue of comparative value.

A number of bond houses have adopted a plan whereby the buyer may obtain bonds in denominations of either $100, $500, or $1,000, by making a small pay-

ment from time to time. This convenient method of buying good investment bonds has brought them within the reach of practically every one. Generally the house offering the plan requires an initial payment of 5 or 10 per cent. of the face value of the bond to be purchased and the balance may be paid in one year's time. In some instances these payments must be paid in equal monthly installments; in others, the purchaser is given the privilege of making payments at any time and in any amounts that are convenient to him within one year, providing his remittances are made at least once every three months during the period.

Inasmuch as the interest on bonds accrues every day at a fixed rate, an adjustment of interest is always made on every transaction where a bond changes hands. When bonds are sold on the small payment method, the interest which the bond pays regularly must be taken into consideration. Let us take as an example the purchase of a single $100 bond of the Virginian Railway 1st 5s 1962 at 97 on July 1, 1915. The purchaser makes an initial payment of $5, leaving a balance due of $92, which he subsequently pays, if he chooses, in ten equal monthly installments, made on the first day of each month following up to and including the 1st day of June, 1916. On that date he would then have paid in $93, leaving a balance due of $4 to be paid on July 1. This, of course, is upon the understanding that no interest has as yet been adjusted.

Assuming that the final payment is made on July 1, and in view of the fact that the Virginian Railway bonds pay interest on the 1st day of May and the 1st day of November of each year, on July 1 the owner of the Virginian Railway bonds, or in this case the house which is holding it, would be entitled to the interest from May 1 to July 1, a period of two months. This the small payment customer is naturally expected to pay and it amounts to 83 cents. At the same time the purchaser is entitled to interest on the funds which he has paid in during the year, which, under the plan in mind, would allow him interest at 5 per cent. upon all amounts for the respective lengths of time which, then, had been on deposit, viz., on the first payment interest for one year and on the next payment for eleven months, and on the following payment for ten months, and so on for each of the subsequent payments. This interest, which is computed from standard interest tables, would amount to $2.44 on July 1. Adding this interest to the total amount of his payments, he would then have a total to his credit of $95.44, leaving a balance due on the bond of only $1.39.

It may be readily seen from this that when buying bonds by this method the actual amount of cash required is less than if the bond was purchased outright July 1, 1916. The fact that interest accrues on each payment in part discounts the actual cost of the bond to the purchaser. It is therefore more profitable for a prospective investor to make his investments from time to time on the small payment method rather than to wait until he has accumulated sufficient funds to purchase a bond outright. Of course, he might place his funds in a savings bank until they reached the required amount, but he would not obtain as liberal a rate of interest.

July 1 and January 1 are probably the largest interest paying months for bonds as well as dividends on bond stock of any other months in the year. A great many bond houses make a specialty of collecting bond interest for their customers. One bond house, of which the writer knows, has already received a number of tentative orders to be executed on July 1 for the purchase of various bonds on the small payment plan, and in anticipation of them the purchasers have already sent in their July 1 coupons. When collected, the proceeds will be applied as initial payment on the new investment; then as subsequent interest is received from their prior investments it is continually applied, with additional remittances if required to carry the account on a satisfactory basis to the house with which they are dealing. This, of course, practically amounts to compounding interest on the money saved and invested, as all dividends and bonds reinvested again receive interest when applied to a small payment plan account.

Bond Market Topics

Scarcity of New Offerings—Why Is It?

THAT the psychological element is in the financial markets in greater degree than in many years is evident from some of the anomalies that exist. Cheap money and cheap bonds are seldom found together. Cheap money and a stagnant bond market are contradictory. And again cheap money and cheap bond prices are producing a third anomalous condition—namely, absence of new offerings.

Possibly this last phase is not so strange when the other two are considered, but it is nevertheless a potent fact just now. One house of considerable importance in the flotation of new issues has had wrapped, sealed and stamped five thousand bond circulars on a new issue which have been held up several weeks for no very definite reason.

Psychology is primary just now in holding up the issues, although fundamentally this condition may be traced back a little farther. The bond houses are just waiting for the atmosphere to clear before they launch out on their campaign. Of course they would like to see a higher level of prices on which to sell their issues because most of them are long term bonds.

In the interim the houses are constantly selling what they have held on their shelves a while so that when the time of the big issues and big market arrives the new business will be all the more vigorous.

Possibly the drawback just now is the low level of prices in many bonds—a level at which the corporations do not think it necessary to sell for the very good reason that they can borrow at the banks on cheaper money. Certainly a lot of undecided opinion as to the future enters into the case.

There might, then, be named three reasons for the paucity of new issues; low prices, unsettled political conditions and the easy money which makes it easier to borrow time money at the banks than on long term bonds.

The Good Short Term Market

THE market for long term bonds is admittedly flat. In the discussion of the puzzle of the bond market generally we have touched on some of the causes for this condition. In the short term market things are much better. So far as the general public are concerned they have been little of a factor in the short term market. Possibly, if the truth were fully known, the general public has been in the stock market much more than the bond market lately. Certainly they have not been a factor in the short term market.

Usually the institutions are the great factor in this branch. Lately they have been predominatingly the factor. Usually in a money market like the present the institutions go in for the active high grade bonds which yield them a better income. To a considerable extent they have been absent from the long term market and have been eager buyers of the short term stuff.

The success of a recent $6,000,000 issue indicated just how they feel. Not alone this issue but others have gone without any trouble. The institutions, contrary to general opinion, are not so free with their funds as might be imagined in an easy money time like this. They are often found hanging on for no particular reason apparently.

But into short term notes they have been going easily. Here they are able to get an income as good or better than high grade long term bonds and have the funds back in their hands in a reasonably short time.

The future of long term issues is being debated by some very good bankers. They are not quite satisfied of the future of these issues as to price level. Some seem to think they will decline. There are arguments easily brought for and against this position. The action of the money market over the coming months is the question. From appearances it would seem to augur cheap money for a long time ahead. If the money were all to be kept here this would be almost certain. But the channels of capital are open always and much of our money may flow elsewhere in later months.

Just how far the banks that usually buy long term bonds are seeing is the interesting problem.

The Puzzle of the Bond Market

OBSERVERS of the bond market are asking why the price of bonds generally is not constantly rising and why the trading is not so broad as might be expected under the circumstances existing. What are the circumstances? An extremely low and easy money market and a dull bond market with no great tendency to rise.

It differs greatly from precedent. In former times it was almost an inevitable concomitant of such low money rates as we are now having to see the bond market soaring. The institutions had their coffers full of money and they bought the high grade active listed bonds. Their activity stimulated the whole list and very shortly the whole investment market was on an upward swing.

We have now easy money as never before, yet bond prices are low and the market is narrow. What is the explanation? Is this condition to remain very long? Is it but the quiet that precedes the storm? How soon and in what way will the great gap between 2½% money and 5½% bond income be somewhat shortened?

Either history will not repeat itself in a rising bond market under the circumstances or else we are on the edge of a great uplift in the security markets that ought to put many points on the numerous bonds. There has been some selling from abroad that has had to be absorbed and there has been considerable house cleaning of the shelves of the bond dealers. And again investors are said to be holding their funds until they see the outcome of affairs. Which of these has had the greatest effect is a question.

PUBLIC UTILITIES DEPT.

Why Tractions Need Not Fear the "Jitney"

How to Meet Jitney Competition

By HENRY JUDSON

THE JITNEY bus has been in existence long enough to prove its damaging effects upon street car traffic, but not long enough to prove its own earning power. Especially in some of the smaller cities it has taken away a considerable percentage of the business of the trolley lines, and while this percentage seldom amounts to more than a tenth of the total traffic it represents that portion of the business upon which the street car companies make the most money, namely, the short haul business. It costs almost as much to move an empty street car a mile as it does a full one; and when the car is packed with strap hangers the profits are immense. It is this highly profitable business, and practically no other, that the jitney bus is taking away.

Now it requires no expert knowledge, but merely close observation, to see that there are two principal ways in which the jitney problem might be solved, provided the required legislation can be obtained. One is to compel the jitneys to give the same service, or service equal in geographical extent, to the street cars; and the other is to permit the trolley lines to readjust their fares upon a mileage basis. Either method would apparently be equitable to both the competing concerns and the public. Surely it is hardly fair that a street car line should be compelled to run its cars from the business center of a city three to five miles out in the suburbs, and run about half of the total distance without covering operating expenses, whereas at the same time a jitney bus is allowed to remain right in the dense traffic of the downtown section and carry the profitable traffic only.

This is not a nation in which one business can be suppressed for the benefit of another; and it is quite too much to expect the jitney bus to be permanently suppressed in the interest of the street car. It is doubtless here to stay, but what can and should be done is to give both an equal chance. In this kind of traffic an equal chance means that either the jitney should be compelled to carry its share of the unprofitable suburban traffic, or else the street car should be permitted the same liberty the jitney has of operating in the profitable downtown section only; or, if it is not allowed to do this, it should at least be permitted to readjust its fares on a per mile basis, so as to derive some profit from the long haul suburban traffic.

By way of seeing what would happen if the street car were given an equal chance with the jitney, let us notice what the profits of the latter would be if it transported the suburbanite as well as the downtown passengers. That would mean a considerable lengthening of the average or typical journey; but before one can discuss the effect of the lengthening of the journey upon net profits, it is necessary to get a fairly comprehensive idea of the net profits actually made under existing conditions. This is no easy task, because the conditions vary so greatly, and the statistics are so inaccurate and incomplete. However, the following may be taken as being at least as good results as can upon the average be obtained with a bus costing $1,000 and seating 12 or 15 passengers:

Gross receipts at $12.25 per day	$3,675
Operating expenses—	
Tire renewals at $1.40 per hundred miles	$364
All other repairs at 2¼c. per mile	675
Total yearly storage charges	160
Licenses and fees	45
Wages of operator	1,300
Total operating expenses	$2,544
Net operating income	$1,131
Charges against income—	
Depreciation of bus	$500
Insurance of all kinds	235
Interest on investments	60
Total charges	$795
Surplus earnings (available for dividends)	$336
Add wages if operated by owner	1,300
Total income of owner	$1,636
Equivalent per day	$5.45

So far as possible all these figures are based upon actual results obtained; but they are still nothing but estimates, and in all doubtful points the bus has been given the benefit of the doubt. That is, this estimate of earning power is more likely to prove too high than too low. Total income per day has varied in different cities all the way from practically nothing to more than $30; but for a $1,000 bus the average seems to be about $12.25. To make gross earnings of this amount it has proven necessary to work from early morning till late at night, and in same cases the owners of buses report that they must put in 12½ hours. The number of trips per hour varies according to the length of the trip and the time of day, but in this case the figures are based on a 10-hour day with four single trips rather than round trips per hour. In many cases, these trips are very short, and 2½ miles is here taken as their average length. This means 100 miles per day, which for 300 business days amounts to 30,000 miles yearly.

Cost of tires is here estimated very conservatively, the cost being placed at 35 cents per tire per 100 miles. Even on an ordinary pleasure automobile the actual cost runs from 40 to 70 cents, according to the weight of the car and the durability of the tire. Even at this rate the cost for the four tires is $1.40 per 100 miles for renewals, and this, after deducting 4,000 miles as the possible life of the tires on the car when purchased, means a total tire renewal cost the first year of $364, and considerably more the second year. For all other repairs the expense is here placed at 2¼ cents per mile, but it could hardly be kept down to this except by good luck. Even on commercial trucks, which are much more durable than jitney busses, the repairs usually cost for light vehicles from 1 to 2½ cents per mile, excluding tires.

The other items are sufficiently clear to need no explanation, except perhaps depreciation charges. These are placed at $500, or 50 per cent. per annum. However, this is figuring the life of a $1,000 bus at 60,000 miles, and it is extremely doubtful whether it could live that long. Or, to put it more accurately, it is doubtful whether it could have such a life without raising the repair costs and losses due to idleness, especially the second year, far above the foregoing estimates. Furthermore, no deduction is made above for taxes other than license fees, and the probability is that within a short time such taxes will average $50 per annum or more. Neither is any allowance here made for losses of gross earnings due to bad weather.

Yet though gross income is here placed at a high figure and expenses at low figures, the yearly surplus to the owner of the car who does not operate it himself figures out only $336; and this makes no provision for accidents and damages either to the car, the driver or the public. The danger of losses from damages, as has been demonstrated by the traffic statistics of great cities, is much greater in the case of a bus than in the case of a railroad or trolley line. If, however, the owner operates his own car the foregoing wage allowance of $1,300 should be added to this surplus, making his yearly income available for

personal use, $1,636, or $5.45 per working day.

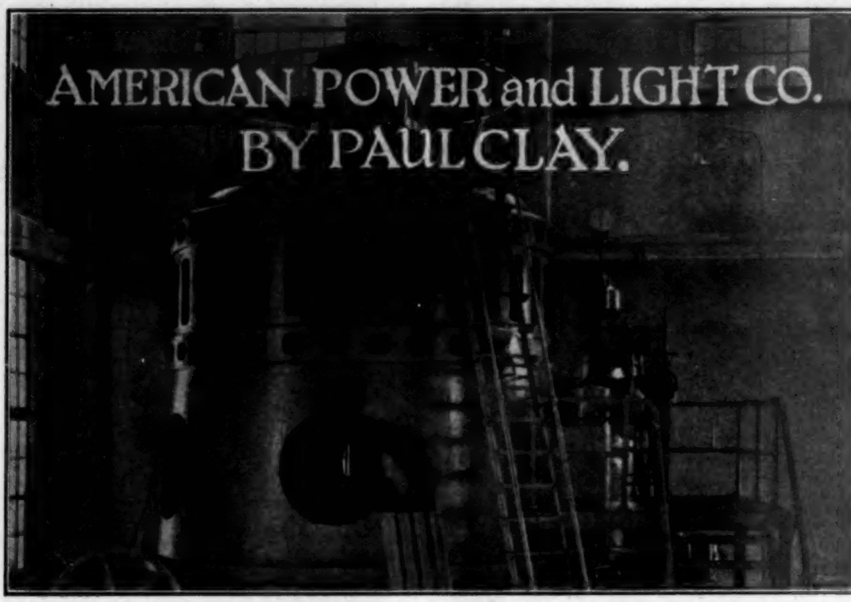
It is observed that if the car is operated by its owner the operating expenses figure out only $2,039 per annum, whereas if operated by a paid chauffeur the expenses are $3,339, including charges. It is clear enough that the jitney business is unprofitable under ordinary conditions, except when the busses are operated by their owners. Hence, taking $2,039 as the operating expense, this amounts on a mileage of 30,000 to an expense of 6.79 cents per bus mile or car mile. For the typical trip of 2½ miles the operating expense thus figures out 16.87 cents. The gross receipts, being $12.25 for 40 trips, figure out $32.62 per trip, and this leaves a good margin of profit.

But now suppose, instead of staying right in the heart of the city, the jitney was compelled to carry suburban traffic also. This would mean trips of three to five miles instead of 1½ to 3 miles, and it would raise the operating expenses in almost exact proportion, since these are principally determined by the mileage run. A trip of four miles, for example, would upon this basis cost about 27.16 cents, and unless the fares were raised the gross revenue would still be but little over 31 cents, so that the business wouldn't pay at all. If the fares were raised, then the jitney would lose business to the street cars, and probably not pay operating expenses. In short, it is fairly clear in spite of the meagreness of the data that the jitney bus cannot compete with the street car on equal terms. Fair play would be its death knell. It must have the cream of the traffic and the preference as to taxes, rights of way, freedom of action and all legal conditions in order to pay.

If, however, it continues to enjoy these preferential conditions, then the very least which can equitably be allowed the street car lines is the privilege of readjusting their fares on a mileage basis. Almost any trolley company in a big city could get rich quick at 2 cents per mile. The downtown passenger would then pay only 3 or 4 cents in many instances, but the suburban passenger would often pay from 10 to 20 cents. In most of our cities the car companies are in one way or another partners of the municipality, the latter having agreed with them to give them franchises, rights of way and the like in exchange for continuous car service over fixed lines, and for certain other services such as paying and cleaning certain portions of the streets. It is then both the interest and the duty of municipalities to see that the street car lines get fair play. Fair play is all that they need to meet the jitney bus problem and relegate it to the shadows of the past.

INVESTMENT EFFICIENCY

IF THE GREAT modern demand for increased efficiency and elimination of needless waste were applied to the investment of surplus capital, with the same thought and care that mark its application to manufacturing and industry, the results would be truly surprising.—L. B. Tucker.



A Water Power Generator

Among the most important public utility concerns in the United States is the American Power and Light Company. Its very name "American" is suggestive of the broad scope of its operations. It is a holding company controlled by interests identified with the General Electric Company, and under the direct influence of the Electric Bond and Share Co. Its name correctly describes its business; for of its gross income 58 per cent. comes from electric light and power, 28 per cent. from artificial gas, 8 per cent. from natural gas, 3 per cent. from railway business and 3 per cent. from water business.

The subsidiary companies operate principally in Kansas, Washington, Oregon and Texas. In all 98 communities are served and the total population of these communities is conservatively estimated at 850,000. Mere numbers convey so little that it is necessary to make comparisons in order to comprehend what an immense clientele is represented by 850,000 persons. According to the Census Bureau the City of Boston, July 1, 1914, had a population of only 733,802 and St. Louis 734,667. Indeed, New York, Chicago and Philadelphia are the only cities in this country having a population as large as the clientele of the American Power and Light Company. The aggregate population of Nevada, New Mexico and Vermont is less than 850,000.

The amount of business done by the companies under the control of this holding company is now enormous. For 1914 its output of artificial gas was 2,073,016,000 cubic feet, and of natural gas 3,057,059,000 cubic feet. Its output of electricity for the year was 138,838,509 kilowatt hours. The electric lines in service have a total length of 2,834 miles which is sufficient to reach two-thirds of the way from Portland, Maine, to Seattle, Washington.

In form the American Power and Light Company is a pure holding concern. Its subsidiaries are Kansas Gas and Electric Co., Pacific Power and Light Co., Portland Gas and Coke Co., and Southwestern Utilities Corporation. The latter company controls the Southwestern Power and Light Co., and the Southwestern Power and Light Co. controls, among others, the Texas Power and Light Co. and the Fort Worth Power and Light Co. Neither the Southwestern Utilities Corporation nor the Southwestern Power and Light Co. is an operating company. The Southwestern Utilities Co. is a subsidiary holding concern organized under the laws of Virginia to control the Southwestern Power and

Light Co., and perhaps acquire other companies in the South.

Apparently the control of these extensive and thriving public utility concerns ought to be of great value to the interests identified with the General Electric Company. It ought to mean a sure market at good prices for a large volume of products made by the General Electric; but the interest of the investor is primarily in the public utility concern. From that point of view therefore the principal significance of the General Electric influence is that it ought to be an indication that the American Power and Light Company and its subsidiaries will enjoy efficient management somewhat similar to that of the General Electric.

Sidney Z. Mitchell, chairman of the American Power and Light Company, is president of the Electric Bond and Share Company and the Utah Securities Corporation, and chairman of the board of the American Gas and Electric Company. He was vice-president of the Butte Electric and Power Company, and is a director in a number of other public utility concerns. This ought to mean good management for the American Power and Light system of companies.

In their present form the annual statements of the system are somewhat objectionable from the point of view of the investor. Consolidated balance sheets are not presented, and because of the complicated inter-company loans and obligations and security ownings, it is utterly impossible for the investor to figure out just what he is buying. He cannot know from the reports, for instance, in purchasing American Power and Light preferred, what is the amount of obligations having priority over this preferred stock. We print herewith the first official statement covering this point. Because of the lack of a consolidated balance sheet he could scarcely find out, but for the willingness of the management to inform the individual investor, what is the real financial position of the system of companies taken as a unit. It is known, however, that some of the officers are in favor of treating the investor with greater frankness and it is believed that a more enlightening form of annual statement may be adopted before long.

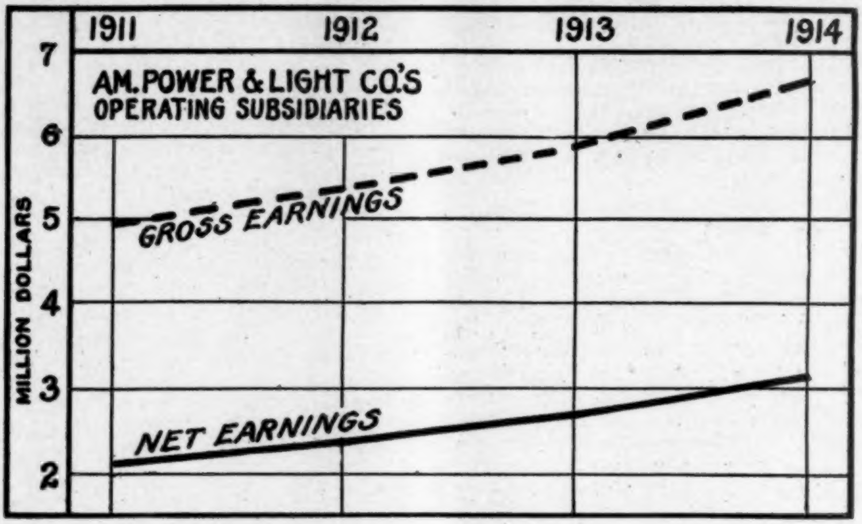
At this early stage of development the company should not be criticised for the lack of a consolidated balance sheet. The company is only five years old, has been rapidly absorbing additional properties, and has presumably not yet reached the stage of development where it would be wise and convenient to undertake the compilation and publishing of such statistics. Still the investor in the securities of this system of companies does want to know what he is buying. He must know the amount of underlying securities having a prior claim upon earnings before he can get any reasonable idea as to the value of the parent company's securities; and this information cannot be obtained from the individual balance sheets, because the inter-company obligations are not fully shown. To satisfy this need we were fortunate enough to obtain from the management the following statement of the net amount of securities of the whole system in the hands of the public.

SECURITIES IN THE HANDS OF THE PUBLIC.

December 31, 1914.

Underlying bonds 5%	$28,187,000
Subsidiary preferred stocks 7%	8,708,500
Subsidiary common stocks	198.700
Net subsidiary capitalization	$37,094,200
Parent Company 6% 10-year notes	2,200,000
Parent Company 6% 1-year notes	3,000,000
Parent Company 6% preferred stock	3,119,800
Prior liabilities to common stock	$45,414,000
Parent Company 4% common stock	8,205,400
	$53,619,400

These securities are placed by us in the order of their apparent priority. The first or underlying obligations are, of course, the bonds of the subsidiary com-



panies. The notes of the subsidiary companies are obligations, not to the public but to the parent company. The preferred stocks of the subsidiaries should rank ahead of the notes of the parent concern because the income with which to pay these notes must be derived in one way or another from the earnings of the subsidiaries remaining after the payment of preferred dividends. The interest and dividend charges, figured upon above actual capitalization, and in the seeming order of their priority are as follows:

5% on subsidiary bonds....	$1,409,350
7% on subsidiary preferred stocks	609,595
Total subsidiary charges	$2,018,945
6% on parent company notes	312,000
6% on parent company preferred stock	187,188
Charges prior to common stock	$2,518,133

There are more than $45,000,000 of bonds, notes and stocks which rank ahead of American Power and Light common. Meantime, if one were to estimate the intrinsic value of the whole system of companies, using its earning power as a basis, and if the estimates were based upon the very best earnings yet shown—that estimate would come out about $38,000,000. That is to say, this would be the aggregate market value of all the securities including bonds, notes and stocks, parent and subsidiary, in the hands of the public.

This estimate may perhaps be a little too small, because it is based upon the general average relation of the security value of public utility concerns to the earning power of those concerns, and does not take into consideration the several new plants of this particular concern which, although very valuable, have not yet developed more than a fraction of their full earning power. It is unsafe to count too much upon either unproductive properties or upon plants in the constructive stage; but perhaps $40,000,000 would be a closer estimate of the real assets of this system.

The evidence is then that the system as a whole is somewhat over-capitalized; but investors should remember that this does not condemn it. Steel common in 1904 was pure water, without a cent of asset value; and yet it was the best purchase in the New York market, was soon to show the investor a profit of 400 to 800 per cent., and now probably has behind it actual assets of about $65 per share. Upon these estimates it would seem that both common and preferred stocks of the American Power and Light Company

are water, and also that there may be about $5,000,000 of water in the remaining or prior capitalization.

However, in the case of such a rapidly growing company it is a rather general practice to issue securities in large enough volume to discount earnings some years ahead, and then to develop real values behind those securities. This has been the practice in almost the whole history of American railroading, and even in the history of banking. Many railroad and bank stocks which, when issued, were nothing but pure water, are now selling for $100 to $500 per share, and are worth the money. Among the American Power and Light subsidiaries the gross earnings of the Kansas Gas and Electric rose from $796,082 in 1910, to $1,163,349 in 1914; those of the Pacific Power and Light from $940,693 to $1,376,490; and those of the Portland Gas and Coke Co. from $823,270 to $1,284,926. The Southwestern Power and Light Co. increased its gross earnings from $1,711,420 for the year ended April 30, 1912, to $2,799,033 for the calendar year 1914; and the Fort Worth Power and Light Co. in the same period increased its gross from $462,670 to $898,000. This should be evidence enough that the growth of earnings ought in the course of a few years to eliminate the water from the capitalization.

Coming now to the practical question of the position of the securities, it is pertinent to observe that the system apparently needs more working capital. The aggregate current assets shown by the balance sheets of the subsidiary companies as of December 31, was only $3,147,680, whereas the current liabilities totaled $3,313,415. The parent concern showed current assets of only $2,610,366 and current liabilities of $3,308,742. Since December 31 these liabilities have been reduced by nearly $1,000,000, but the report does not state to what extent the assets may also have been reduced.

Through the old policy of secrecy, the management, curiously enough, does itself an injustice, by way of making the financial position of the system of companies appear less strong than it really is. The current liabilities of the subsidiaries are largely due to the parent concern, whereas their assets are largely or wholly moneys due from the public for services rendered. Considering these facts the system as a whole probably has no net debt, and those close to the management estimate that current assets exceed current liabilities by about $2,000,000. The importance of the point is considerable. With a net debt of $1,000,000 American Power and Light preferred would seem very dear at current prices. With current assets and current liabilities equal, it would seem a fair speculation; and with a net working capital of $2,000,000 it would appear to be something of a bargain.

Owing to the heavy prior obligations, a slight decrease in earnings, such as is apt to happen to even the strongest corporation in the world, might any time wipe out the common dividend; but it would take a large decrease to endanger the preferred dividend. Recent reports show increases in earnings, and this statement is not intended as any trouble ahead, but only as a definition of the position of this stock. There are a great many bonds and stocks in the entire system, and to assist the investor they are nere roughly grouped in three classes according to merit. This merit is determined in each case by a consideration not only of earning power, but also of the amount of prior obligations.

GOOD SECURITIES

Kansas Gas and Electric 5s of 1922.

Pacific Power and Light 5s of 1930.

Portland Gas and Coke 5s of 1951 and 1940.

Portland Gas and Coke 7 per cent. cumulative preferred stock.

Southwestern Utilities 6 per cent. gold notes.

American Power and Light 6 per cent. notes.

Texas Power and Light 5s of 1937.

Texas Power and Light 7 per cent. cumulative preferred stock.

Fort Worth Power and Light 5s of 1931.

Fort Worth 7 per cent. cumulative preferred stock.

FAIR SECURITIES.

Southwestern Power and Light preferred stock.

Kansas Gas and Electric 7 per cent. preferred stock.

Pacific Power and Light 7 per cent. preferred stock.

Portland Gas and Coke common.

Southwestern Utilities Corporation stock.

Fort Worth Power and Light common.

American Power and Light 6 per cent. preferred stock.

SPECULATIVE SECURITIES.

American Power and Light 4 per cent. common stock.

Kansas Gas and Electric common.

Pacific Power and Light 7 per cent. second preferred stock.

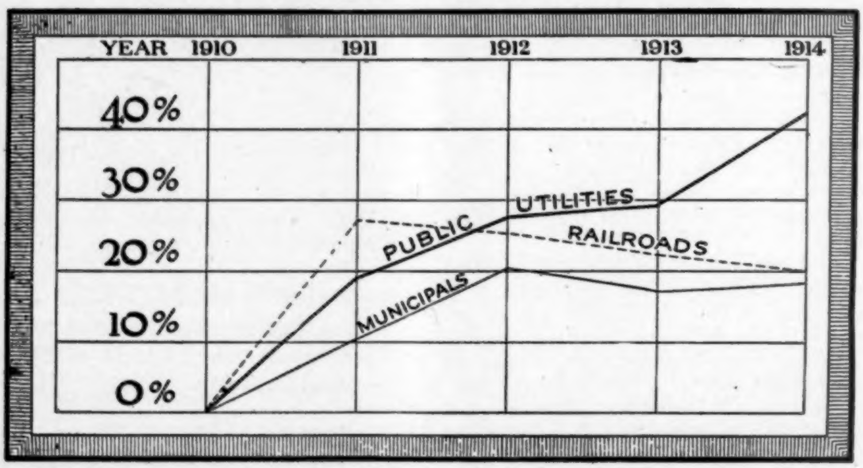
Pacific Power and Light common.

Southwestern Power and Light common.

Texas Power and Light common.

There is listed in the three groups of securities a number of securities all of whose stocks is owned by the American Power and Light Co. or the Southwestern Utilities Corporation. Portland Gas and Coke common, Southwestern Utilities Corporation stock, Kansas Gas and Electric common, Pacific Power and Light second preferred, Pacific Power and Light common, Southwestern Power and Light common and Texas Power and Light common are so held, no securities of any of these issues, other than directors' shares of stock, being in the hands of the public. These are included, however, since they throw so much light upon the position of the securities which are in the hands of the public.

HOLDINGS OF BONDS BY NATIONAL BANKS



Official Government reports show that the total of securities held for investment purposes by National Banks increased 24.5% from 1910 to 1914, whereas holdings of *Public Utility Bonds increased 42.6% in the same period.*

The problem to be solved in making an investment is how to obtain a fair return on money without jeopardizing its safety.

Notes on Public Utilities

American Gas & Elec.—EARNINGS for the year ended March 31 show a balance equivalent to 19.93% on the $3,641,400 common stock.

American Cities Co.—REDUCTION IN dividends due to general slackness of conditions and to jitney competition as explained in a special circular issued by the management.

Brooklyn Rapid Transit.—GROSS RECEIPTS decreased approximately $3,000 per day in May due to bad weather. Company is expected to earn from 7½% to 7¾% on stock during current fiscal year, which is equivalent to about $1,200,000.

Columbus Gas & Elec.—STATEMENT of the president shows that during the past year gas customers increased by 3.8% and electric customers by 7%. He further says that the growth of the electric business was greatly retarded by the electric investigation which continued to disturb prospective customers. Co. expects to prosecute a vigorous campaign for new business.

Central State Electric Corporation.—PASSING of the dividend on common stock was caused by the uncertainty as to the effect of the decision of the Ohio Utilities Commission in the pending rate case will have on their earnings.

Chicago Railways.—GROSS earnings in 1914 fell off about $608,000. Part of the decrease was due to the extension of the 5 cent zone, but the greater part was because of the closing of material reduction in working forces of many industrial establishments. After all deductions and charges the net income for the fiscal year was $717,161 as against $996,387 for the preceding year.

Commonwealth Power.—EARNINGS in the 12 mos. ended April 30, 1915, applicable to dividends on common stock were $1,257,857 or 8.11% on $15,500,000 stock. Aside from a slight decrease due to the jitneys the electric railways of the company are making a satisfactory showing.

Edison Co. of Boston.—GROSS earnings for 11 mos. ended May 31 were $6,869,382 an increase of $379,885 or 5.85%, compared with corresponding period a year ago. These earnings broke all previous records.

Electric Bond & Share Co.—GAINS in earnings continue to be shown in the operating properties in which it is interested through the ownership of securities. Co. is branching out into foreign investments by taking a large interest in a Cuban public utility.

Interborough Rapid Transit. — APPROVAL of the new plan of consolidation of the Co. leaves nothing but to arrange the details for exchange of the present stock for stock of the Interborough Consolidated Corporation, the new company. The new certificates are being engraved and as soon as completed plans for exchange will be announced.

Louisville Gas & Electric.—EARNINGS of the company for the nineteen months ended January 31, 1915, were $3,352,558 gross and $1,474,611 net with a surplus after all charges including interest and other deductions of $750,154.

Middle West Utilities.—ANNUAL REPORT for the year ended April 30 shows combined earnings increased in gross $299,393 and net $449,073. Surplus increased $213,867.

Massachusetts Elec. Cos.—DIVIDEND of 2% due July 1 passed because of indications that the 4% would not be earned in fiscal year to end June 30 and because of the unfavorable operating conditions. The year is not expected to do better than previous year.

Northwestern Electric.—SOLD $3,000,000 1st mortgage 6% 20 yr. bonds to New York bankers for additions to property. In 1915 it is estimated the Co. will earn $700,000 gross and $375,000 net and with completion of plants gross $1,000,000 and net $700,000.

Ohio State Telephone.—SYNDICATE has disposed of the $3,000,000 7% preferred and $900,000 common stock. It is estimated the company will earn in its first year close to 5%.

Philadelphia Co.—GROSS sales decreased over 5% and surplus for common was 6% on stock.

Southern Power.—HAS SOLD $1,200,000 of its 1st mortgage 5% bonds to a New York syndicate. Gross earnings for year ended April 30 were $2,485,789. Net were $1,446,772, or more than four times the required bond interest.

Third Avenue.—SURPLUS for ten mos. ended April 30 equal to 3.2% on the stock outstanding. If earnings continue as for this period the full 5 per cent. will be earned on the stock.

United Rys. & Elec.—SEVERE regulations of the jitneys are expected to reduce this trouble of the street railways to a minimum. U. R. & E. has suffered from them.

Western Power Co.—NEW CORPORATION has been incorporated at Albany, N. Y., shares of the common stock of which will be exchanged share for share of present outstanding common stock of Western Power Co. of N. J., and pfd. stock will be exchanged for present pfd. share for share with an additional 18% of new pfd. stock on account of accrued divis. on West Power Pfd.

RAILWAYS & INDUSTRIALS

The Market Outlook

Conflicting Influences—Bond Market—Technical Conditions—Better Iron Prospect—The Lackawanna Decision

THE market is hesitating without showing weakness. Nothing better, perhaps, could be expected in view of the uncertainties that still confront us.

There is, however, a striking list of factors that encourage investors to expect further progress on the constructive side. A record wheat crop is probable; other crops have been planted under generally favorable conditions; the banks are bursting with idle money, which seeks safe employment in business enterprise; millions are being paid out in this country on war orders by four great European nations and no end to this demand is in sight; the foreign trade balance in our favor keeps increasing; we have imported over $110,000,000 gold since January 1; the steel industry, which is always regarded as an important business barometer, reports increased orders and slightly better prices; the railroads are showing a disposition to increase their orders for material and equipment; there is less antagonism between business and politics; the U. S. Steel decision has afforded much encouragement to those who control our biggest business enterprises.

On the other hand, there are some notable obstacles to business progress. The tremendous demand for capital abroad to be poured into the sink of war limits the supply of capital for constructive enterprise in this country and makes it necessary to pay relatively high rates of interest on permanent investments; the South has not yet recovered from the blow dealt it by the low price and small demand for cotton; general business throughout the country shows but slight improvement, with the exception of the "war order" lines; the Steel decision will probably be appealed and the International Harvester case is to be re-argued in the fall, thus postponing the final ruling of the courts as to what Big Business may or may not do; the end of the European War is apparently as far off as ever; and last but not least, our difficulty with Germany remains to be adjusted.

* * *

THE bond market remains dull and rather heavy, but without any decline of importance in the general level of bond prices. Home and foreign conditions are diametrically opposed. In America, capital is accumulating. At present it is in the form of bank deposits, but under ordinary conditions it would soon flow into bonds and bring higher prices. In Europe, capital is being dissipated with startling, paralyzing rapidity. The great banks are being upheld by their respective governments by main force. Such a condition cannot but bring lower prices for all foreign bonds.

Between these two forces, our bonds have remained nearly stationary. The foreign influence is doubtless the more powerful of the two, but it is spread over a wider territory. Favorable home conditions have so far prevented our bonds from declining as a result of scarcity of capital abroad.

We cannot as yet see a prospect of conditions which will warrant any material rise in bond prices. More active business, which is highly probable, would greatly benefit junior securities, especially stocks; but the price of high-grade bonds depends on the money conditions of the world, and with the enormous drain of the foreign war, that condition of easy capital for permanent investment which most favors the bond market seems to us quite impossible for a considerable time to come.

The investor for income is of course entirely safe—just as safe as he ever was—in buying good bonds for permanent holding. In fact, in view of the present low level of bond prices, it is likely that any further declines, if they should come, would be of a minor and temporary character. But the investor who looks for profits in addition to interest should, we believe, avoid long-

term, high-grade bonds for the present.

* * *

DURING the latter part of the sharp advance in the stock market which culminated about May 1, a miscellaneous and to a great extent inexperienced public was virtually dominating the speculative situation. The interests which have usually led such demonstrations were for the most part holding aloof and occupying the position of spectators.

The small panic which followed the sinking of the *Lusitania* made a great change in the technical condition of the market. The outside public hastily dropped its stocks, with or without profits as the case may be, and the buyers on the decline were of a more courageous and experienced character. Many investors who had missed their opportunity previously, then took advantage of the weakness of various good issues to pick up a part or all of their desired lines.

The result is that the market is not now so susceptible to the effect of bear news as it was early in May. Many of the present holders of stocks could scarcely be scared into selling them at lower prices, because they have bought from a definite conviction of value and with abundant means to carry their purchases through any temporary decline.

A market is never entirely "shock-proof," but at least the market is now in a condition to stand shocks with comparative equanimity.

* * *

THE marked improvement in the iron and steel business is worthy of special attention at this time. Where six months ago the steel mills of the country were operating at less than 50 per cent. capacity, they are now running at 80 per cent., and even at that rate of production unfilled orders are increasing. Stocks of pig iron at furnaces are being gradually reduced, in spite of a constant increase in production.

"War orders," of course, account for a part of this increased demand for iron and steel: There has also been some increase in railroad buying which has been passed on to the mills in the form of demand for steel. Some improvement in the demand for structural iron is noticeable also. In short, the increased business in iron and steel is a reflection of improved business in general lines pretty much throughout the country, as it usually is. The war has not changed the value of iron as an index to business activity as a whole.

The improvement in iron and steel has now progressed far enough to make sure that it is the beginning of a genuine upward movement and not merely a temporary fluctuation. For our part we have never had any doubts on that point and have repeatedly stated our views in this department. Nothing in the economic history of this country is more marked than the swing of the "minor cycle" in the steel business. It is founded upon sound reasons and unchangeable human characteristics. Hence the close student of steel movements of the past can predict the next main swing of prices and production with approximate accuracy.

* * *

THE decision of the Supreme Court against the coal-selling plan of the Delaware, Lackawanna & Western Railroad is a decision against the peculiar contract of the road with the coal company, and does not necessarily show what the attitude of the court will be toward the Reading and Lehigh Valley coal business. The following extract from the decision states clearly what the road may or may not do:

The railroad company, if it continues in the business of mining, must absolutely disassociate itself from the coal before the transportation begins. It cannot retain the title nor can it sell through an agent. It cannot call that agent a buyer while so hampering and restricting such alleged buyer as to make him a puppet subject to the control of the railroad company. If the railroad sells coal at the mouth of the mines to one buyer or to many it must not only part with all interest direct or indirect in the property, but also with all control over it or over those to whom the coal is sold at the mines.

It must leave the buyer as free as any other buyer who pays for what he has bought. It should not sell to a corporation with officers and offices in common—for the policy of the statute requires that instead of being managed by the same officers they should studiously and in good faith avoid anything, either in contract or conduct that remotely savors of joint action, joint interest, or the dominance of one company by the other.

Definite Suggestions for Investments

What to Do With $30,000

An Answer to a Subscriber's Inquiry

The Inquiry: **I have $30,000 cash to invest. I am in business for myself. I may have to divest myself of any such holdings as I may acquire now in a year or so for other purposes. I have in mind bonds properly diversified, netting about 5% to 5½% or, if you deem it possible, 6%. I am not averse to good stocks if you anticipate a rise in the future, but I wish not to be too speculative.**

However, I would like to buy a few thousand dollars also in coppers, which, of course, I realize will be a speculative enterprise aside from the foregoing proposition.

I wish to state that I never have invested in stocks, bonds or any other securities to such an amount as stated above, and rely entirely on your advice. I have never speculated. All I wish is a good investment of funds pending further use and secure a good income. Of course this does not apply to the "Coppers."—A. B.

THE answers of three prominent bond houses to which the inquiry was submitted:

I.

"The writer's statement to the effect that he might have to divest himself of any such holdings in a year or so for other purposes, is the prime factor which we must consider in replying in the interest of the investor. If this absolute need for the funds will arise at or about a given period, the best plan would probably be to purchase a certificate of deposit issued by one of the large Trust Companies. This would mean the acceptance of a lower rate of interest, with as we view the matter—time of payment is prime factor.

Another method would be to purchase short term securities such as:

American Tel. & Tel. (subsidiary companies) 5% Bonds, due April, 1916.

Sulzberger & Sons Co. 6s, due June, 1916.

together with other issues current in the market. The yield, however, in well secured notes would not average over 4½ per cent.

Inasmuch as your inquirer indicates the desire for diversified bonds with a liberal yield, we would make suggestions as noted in Table I.

TABLE I

Security	*Price*	*Amount*	*Income*
$5,000 New York Central Convertible Debenture 6s, due 1935	103	$5,150	$300
5,000 Bethlehem Steel Co. Refdg. 5s, due 1942, at 93..	93	4,650	250
5,000 Chicago, Milwaukee & St. Paul Ry. Refdg. Convertible 5s, due 2014	103	5,150	250
5,000 American Tel. & Tel. Co. Convertible 4s, due 1929.	88	4,400	200
5,000 Swift & Co. 1st 5s, due 1944	96	4,800	250
5,000 So. Pacific San Francisco Terminal 4s, due 1950	80	4,000	200
$30,000		$28,150	$1,450

This would give $30,000 par value of bonds costing $28,150 and supply a yearly income of $1,450, equivalent to about 5.15 per cent. yearly on the invested capital with a somewhat larger yield if held to maturity.

In our opinion, bonds enumerated are selling at a low price. If your customer decides to invest the funds mentioned in such securities we should be pleased to give our reasons for selecting them.

Regarding his inquiry for copper stocks, we fear it would be presumptuous on our part to make any suggestions. Mining is a business. Dividends are really made up—partially of earnings and partially from exhaustion of assets. There are no doubt many attractive industrial stocks—one which appeals to us being Westinghouse Electric & Mfg. Co. The company, we understand, during 1914—the year of very poor business—earned something over 4 per cent. on its stock. The large amount of profitable war order

business now being turned out will prove very profitable and this business is apt to continue in a substantial volume for some years after the termination of the war. In the meantime the electrical industry will no doubt return to normal proportions."

II.

"If your client, who has $30,000 to invest, may need his money at any time within one year for business purposes, we would advise him to distribute his money principally between short term and medium term issues, and the balance in a grade of bond which responds but little to day-to-day influences. We would also divide the investment among railroad, public utility and municipal bonds. In accordance with this idea we make the following suggestions, the bases given being subject to change.

Short Term Issues— Security.		*Maturity,*	*Yield about*	*Average yield.*
$3,000	Baltimore & Ohio 4½% Secured Gold Notes, Series "B"..	1918	5%	
3,000	Southern Railway 5% Collateral Gold Notes	1917	6.10%	
3,000	Minneapolis General Electric Co. 6% Gold Notes	1917	5.55%	
				5.55%
Medium Term Issues—				
$3,000	Sou. Pacific Convertible 4% Bonds.	1929	6%	
3,000	City of Quebec 5's.	1920	5.50%	
3,000	Central Leather Prior Lien 5's....	1925	5.10%	
				5.53%
Public Utility Issues—				
$3,000	Commonwealth Edison Co. 1st 5's....	1943	4.95%	
3,000	Georgia Railway & Electric Co. 1st Consolidated 5's....	1932	4.87%	
3,000	Kings County Elevated 1st 4's.......	1949	5%	
				4.94%

As will be seen the average on the above investments would be 5.34% approximately, which, considering the grade of securities suggested, we think a very full return.

As regards copper stocks, we hesitate to express any opinion, as the future of the metal for the next few years depends so much upon the duration of the present war. If we had to make a selection we would incline to suggest:

$1,500 Miami, which now pays $2 per year. Par value $5. Present price about $27.

$1,500 Inspiration Copper. Production just begun. It is estimated that on 10-cent copper the company can earn 10 per cent. Par $20. Present price about 32⅝.

With copper at about 20 cents, copper companies should be able to increase their earnings heavily."

III.

"In view of the fact that the investment is of this nature, we would suggest that your subscriber confine himself to notes or short term bonds which would mature about the time when he expects to need the money, or else that he invest the money in convertible bonds.

In view of the high rates for money now prevailing, we believe this to be a particularly opportune time in which to invest money for a "long pull." After this period of high interest rates is passed there will probably not be another similar opportunity for years to come to secure so large a return from conservative investments as the present market affords.

We do not advise our customers, however, who are expecting to have to realize upon their investments within a relatively short time to buy long time investment bonds, because it is impossible to tell when the European conflict will end, and therefore when the unusual demand upon the capital of the world will cease and a normal condition be resumed. As long as present conditions continue, interest rates will tend to remain high, and possibly to increase, and therefore the price of long time investment bonds will tend to hold at the present low level, or perhaps even depreciate further.

On the other hand, if, as now seems likely, general business conditions become increasingly active and profitable, we may look for improving dividends upon corporation stocks, which will warrant higher prices for many stock issues. This is the reason why we would advise, for the purpose which your subscriber

has in mind, that part of the funds be put into good convertible bonds. By so doing the investor avoids the risk involved in buying stocks. He remains a creditor of the company, and if the bonds are wisely chosen is reasonbly assured of receiving regular returns upon the investment. But if the expectation which so many observers now have, is realized that business is to become profitably active and stock dividends increase, stock prices should measurably appreciate. In this case, the privilege of exchange held by an owner of convertible bonds would become valuable and the convertible bonds would share in the improvement in market value of the stocks into which they are convertible."

Our answer, with explanations and suggestions:

Your inquiry opens a wide field of opportunity for selection. With such an amount of money considerable diversification can be made. In a time like the present you can exercise a wider latitude in selection than if the markets were at much higher levels. With as much as $30,000 to invest you can give considerable emphasis to appreciation in price at a time like the present. There is no reason why you should not be conservative and still plan your investment in such a way as to give you a very satisfactory return in point of income and at the same time put you in a position to take advantage of rising markets both in stocks and bonds.

When the markets are at as low a general level as at the present time, it is quite possible to increase your principal substantially over a period of a year such as you state will be about the maximum time your money will be left in securities. Over the next year it seems likely that both stocks and bonds will appreciate in price. It would be different if price levels were very high. You would then be under necessity of investing in such securities that would be likely to show the least depreciation, which of course would be the very highest grade of bonds obtainable. As a matter of fact for a hold of one year only it would be unwise to put your money altogether into securities if the general level was abnormally high such as prevailed in August, 1909, when the average income on a group of the very highest grade railroad stocks would have returned you less than 5 per cent.

The idea then you must keep in mind in the present instance is the degree of appreciation you may expect on various securities over the year, that is, to make the investment most scientific and efficient. The lower the general level of the markets the higher average amount of income you may accept. For instance, when the markets are at a low level of prices as at present or a little lower, you can accept an income of ¼ to ½ per cent. higher than when prices are high and still not be holding securities with any greater degree of risk. In other words, risk of loss in principal is in proportion to the position of the markets in general. After a severe and long continued decline in security prices it is almost possible to buy any security with little risk since the logical movement of prices from that point is upward. This was illustrated last Fall when war conditions brought the level of securities very low.

As a basis of measurement, therefore, you may take in a general way five levels of return on the highest grade railroad stocks. In a sense it may be termed as the barometer by which to measure the investment atmosphere. These five are: 6, 5¾, 5½, 5¼ and 5 per cent.

When the highest grade railroad stocks like Atchison, Pennsylvania and the like are selling close to a 6 per cent. basis it is quite certain the level of securities is low. Selling on a 4¾ per cent. basis the level is very high. According to the way the stock and bond markets move normally this would mean a time of great risk in depreciation of principal over the following year. We are now somewhere between 5½ and 6 per cent. as an average return on this class of security—which means that bonds of medium calibre and high grade stocks may be bought with great probabilities of safety over another year, and a sprinkling of the cheaper stocks may be made if desired.

To this end we have divided securities

into nine classes, showing the income, yield and possible appreciation over the next year. From their nature and the amount of return you may know the relative character of the different groups. In a general way where the possibility of *appreciation* is small there also the likelihood of *decline* is relatively light. Working against this latter factor, however, is the TREND which at the moment favors higher levels.

Since you have said you are not averse to good stocks you will find them in group C. From this outline and securities named you should be able to make a selection that will yield you better than 5½ per cent. and give you an increase in principal of from 5 to 10 per cent. over a year with the minimum amount of risk.

Class	Name of Security		*Approx. Income Yield.*	*Points appreciation that may be reasonably expected in one year.*
	Group A.			
High Grade R. R. Bonds	Lou. & Nashville 6s	1930	4.78	1 to 3
	C. M. & St. Paul Conv. 5s.	2014	4.80	
	Flori. East Coast 4½s	1959	5.07	
	So. Pacific Term 4s	....	5.30	
	Oregon Short Line 4s	1929	5.00	
	Group B.			
Medium Grade R. R. Bonds	Kansas City So. 5s	1950	5.52	3 to 10
	C. C. C. & St. L. 4s	1993	5.65	
	Erie Prior L. 4s	1996	5.93	
	Ches. & Ohio Conv.	1930	7.50	
	Group C.			
High Grade R. R. Stocks	New York Cent.	Div. 5%	5.61	5 to 15
	C. M. St. Paul	Div. 5%	5.43	
	Atchison	Div. 6%	5.98	
	Gt. Northern	Div. 7%	5.83	
	Union-Pac.	Div. 8%	6.20	
	Group D.			
Preferred Industrial Stocks	Un. States Steel	Div. 7%	6.60	3 to 8
	Am. Car & Fdry.	Div. 7%	6.25	
	Am. Beet Sugar	Div. 6%	6.90	
	Cent. Leather	Div. 7%	6.75	
	Group E.			
Cheap Railroad Stocks	Erie common	None	....	5 to 15
	Erie preferred	None	....	
	Kansas City South. com.	None	....	
	Seaboard Air Line pfd.	None	....	
	Group F.			
Cheap Industrial Stocks	Am. Beet Sugar com.	None	....	7 to 20
	Central Leather com.	None	....	
	Am. Locomotive com.	None	....	
	Am. Car & Fdry. com.	None	....	
	Pressed Steel Car com.	None	....	
	Group G.			
Utility Bonds	So. Cal. Ed. 5s	1939	5.35	Small
	Am. Tel. & Tel. Col. 4s	1929	5.20	
	Pac. Gas & Elec. 5s	1946	6.40	
	Montana Power 5s	1943	5.55	
	Puget Sound Trac. 6s	1919	6.00	
	Group H.			
Industrial Bonds	Am. Ag. Chemical 5s	1924	5.95	3 to 5
	Jones & Laughlin 5s	1939	5.00	
	Swift & Co. 5s	1944	5.25	
	Rep. Ir. & Steel 5s	1940	5.60	

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THERE is a real distinction and a vast difference between the ordnance issues and the so termed "war stocks." Ordnance companies in the manufacture of powder, guns, rifles, ammunition, explosives, machine guns and other war supplies are performing their legitimate function—following their regular line of business—in fact, any orders or contracts accepted by these companies are based upon actual results previously consummated. Therefore, guess work is practically eliminated.

The largest ordnance companies in the country are Bethlehem Steel, E. I. Du Pont Powder, Hercules Powder, Winchester Arms, Colts Patent Fire Arms, Savage Arms, E. W. Bliss and Aetna Explosives.

The so-termed "war stocks" are securities of companies whose regular business consists of the manufacture of locomotives, electric appliances, railroad rolling stock, automobile parts, tin cans, etc., who are in receipt of over-flow orders or sub-let contracts, that, on account of the tremendous demand, are impossible of fulfillment in the regular ordnance plants. No doubt these contracts will prove profitable because of the high prices now prevailing for all war munitions, but it must be stated that a perusal of any foreign government contract will convince even the layman, that all is not gold in the glittering "war order" reports.

It is stated that many of these latter companies have accepted orders after the most meagre attempts at manufacture without proper estimate of cost. In fact, shrapnel contracts have been accepted on the basis of the cost of manufacture, after turning out only one hundred shells. No doubt these, too, will prove profitable, as it is or should be possible to make a larger number at a lower cost per unit, after machines are installed and workmen become familiar with the operation. However, this is not a tangible asset on which to base a bull market.

Therefore, the difference between ordnance stocks and "war order" stocks is the difference between actualities and probabilities. Both should be successful to a certain degree, but the difference may result in a 50 per cent. profit to the first named class of securities and a 10 per cent. profit to the latter.

Another point of interest is the difference in capitalization. The outstanding common stock of the ten largest ordnance companies amounts to $69,713,183. (In most cases this is the only form of indebtedness outstanding.) The ten leading companies who have received war orders, and whose regular business is limited to a far different line of manufactured products, have common stock outstanding to the amount of $243,913,405. In other words, the war stocks must earn six times the amount made by the ordnance stocks in order to pay the same ratio of dividends. While profits to ordnance companies on the different class of goods manufactured *and accepted* should prove from 10 per cent. to 50 per cent. greater; acceptances

being equal, according to some estimates.

The demand for shrapnel, powder, rifles, field-guns, mines, torpedoes, and automatic machine guns has in every case up to date been followed by a rise in the different class of securities affected. It is interesting to note that the greatest demand in the line of war products, at the present time, is reported to be for rapid fire machine guns.

AUTOMATIC MACHINE GUNS

Automatic machine guns have been in use since the civil war, but it is only within the last few years that a practical gun light enough to meet the military demands of aeroplane warfare has been perfected.

Automatic machine guns are patented and controlled in this country, outside of the Government, by the Colts, the Savage and the Winchester companies.

The limited capacity of the present factories is being rapidly extended and it is understood that one company is now completing a thoroughly up-to-date plant with machinery and tools that will have capacity of 50 machine guns per day. Previous to the European war the largest single output was 50 per week.

Last week the London *Daily Mail* urged the British Government to hasten the production of machine guns by placing orders for unlimited quantities in England, Canada and the United States. It says, "The Germans are virtually substituting men armed with machine guns for the old-fashioned infantry armed with rifles. Experience is proving that an army which attempts to fight machine guns with rifles is committing the same mistake as a man who runs a foot race with a locomotive."

Summing up any decision as to the safety of war stocks as investments—after the close of hostilities—it should be remembered that the ordnance issues, with hardly an exception, have paid good dividends for a number of years previous to the war, and that following the actual demonstration of preparedness in the shape of guns, rapid firers, ammunition and machine guns particularly, by one of the fighting nations of Europe, will undoubtedly result in all the first class nations of the world bringing up their armament to the highest pitch of efficiency, and this country from a standpoint of self-defense or war-prevention is likely to keep all American ordnance plants working to capacity for many years to come. Again—ordnance stocks with one exception are unlisted and are largely traded in for cash, or purchased outright by investors, and therefore, not subject to violent speculative movements. There is little doubt that many of the "war stocks" which are bought on tips and carried "on margin" have already discounted increased earnings, and it may take several months for the companies' business to overtake the anticipated stock values.

Should the war continue, many "war stocks" may be worth much more than their present selling prices, but if this condition prevails the ordnance issues may in some cases be actually worth over 100 per cent. more than ruling quotations. The difference is obvious, but does not appeal to the speculative public.

The principal dividend paying ordnance stocks with a brief synopsis of reported war orders follow:

AETNA EXPLOSIVES

Incorporated in November, 1914, under the laws of the State of New York. Capital stock outstanding, $2,800,000; 7 per cent. cumulative preferred and $4,800,000 common. The initial dividend of 2⅓ per cent. on the preferred stock was paid in April, representing accrued dividend for four months from date of incorporation.

War orders for high explosives, electric exploders, smokeless powder, etc., are understood to aggregate a total volume of over $22,000,000 and it is estimated that net earnings on the common stock resulting therefrom will show over 100 per cent. for 1915.

E. W. BLISS

The company was recently restrained from supplying foreign governments with torpedoes, but is reported to have orders on hand for shrapnel and mines that will keep its recently enlarged plants busy for the next two years. Bliss pays 8 per cent. on its preferred stock and the common rate was recently increased to 10 per cent.

Canadian Explosives

This company is the largest manufacturer of explosives in the Dominion of Canada, and has naturally been favored by the British Government, and it is stated that the company is also in receipt of large orders from the Russian Government, but no definite volume can be obtained. Dividends are maintained at the rate of 1 per cent. quarterly, and the stock has advanced since the declaration of war from $88 per share.

Dupont Powder

This company recently increased the quarterly dividend from 2 per cent. and 1 per cent. extra to 2 per cent. and 2 per cent. extra with a special extra dividend of 5 per cent. in Atlas preferred stock. Reports of war orders are a daily occurrence, the largest of which is for $100,000,000 worth of powder from the French Government. The company has increased its capacity several fold since the declaration of war, and the stock has scored a new high price week after week since August, 1914, when it sold around $120 per share.

Hercules

Is understood to have on hand firm orders for over $20,000,000 worth of powder. The annual gross business for the last two years is approximately $7,-500,000. Therefore, it is natural to assume that this year the company will treble the net earnings of last year, which amounted to 15.7 per cent. on its $6,-500,000 stock. The company maintains a quarterly dividend rate of 1½ per cent. and has advanced in price from around $120 per share since August, 1914.

Winchester

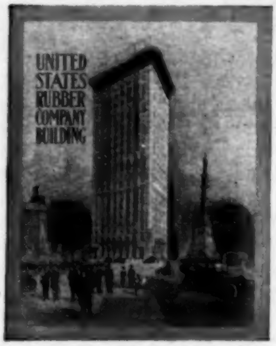
Pays the largest dividend of any known ordnance stock in the country. Last year it disbursed 60 per cent. to stockholders. The company's plant is located at New Haven, Conn., and the Hartford *Daily Courant* is authority for the statement that "the company has enough orders on hand at the present time to keep it busy night and day for two years, and has begun to build additions that will cost $1,336,400." The company manufactures cartridges, shrapnel, machine guns and rifles. Since July 17, 1914, thirty-eight buildings or additions have been added to the plant. The company is capitalized for $1,000,000 and the stock has advanced from around $1,190 per share since July 30, 1914.

Savage Arms

No doubt the greatest revenue to the company will be derived from the Lewis automatic machine gun. Savage Arms controls, through the ownership of patents, the manufacture of this gun on the American continent. Savage is completing its new plant to manufacture 300 guns per week, which is understood to be four times greater than any other American output. The Savage company also manufactures the new "Springfield type" military rifle, the Savage Sporting rifle, automatic pistols and ammunition. The amount of war orders on hand cannot be verified, but newspaper reports state the company has a $10,000,000 contract, which, if correct, means a $5,000,000 profit or 500 per cent. on its total capital stock. The company has paid dividends at the rate of 6 per cent. since 1909. Capitalized for $1,000,000. No bonds nor preferred stock.

Colt's Patent Fire Arms Co.

This company is the manufacturer of the well-known Colt's automatic revolver and machine gun. Has been in business since 1855, and it is reported that war orders on hand will keep the plant busy for the next two years. This company also controls the manufacture of the Vickers machine gun in this country. Colt's has a capital stock of $2,500,000 authorized and outstanding; no bonds nor preferred stock; the last quarterly dividend was this month increased from the regular 1½ per cent. and 1½ per cent. extra to 1½ per cent. and 2½ per cent. extra. The factory is located at Hartford, Conn., and employs 1,000 hands. It is understood that the gross sales for the first three months of 1915 are practically the same as for the total year of 1914, and in the increase in business is largely traceable to the fact that it has entered the field to manufacture machine guns.



United States Rubber

Present Position and Future Prospects

By NORMAN MERRIMAN

HARDLY any stock listed on the New York Stock Exchange is so puzzling to the average investor as United States Rubber common. The stock pays dividends of 6 per cent. per annum, and since this dividend rate was inaugurated it has never sold at a price yielding less than 8 per cent. on any money invested. At times it has sold to yield as much as 13 per cent. to the purchaser, and at its prevailing price of about 65 it returns considerably more than nine per cent. This high yield, instead of attracting most investors, makes them fear that the dividend will be reduced, and for this reason they are reluctant about buying the stock. Nevertheless the dividend rate has been steadily maintained since April, 1913, and the company has been able to report a substantial surplus over and above dividend requirements, in spite of the general depression in business existing in this country in the last two years.

The United States Rubber Company was formed in 1892 as a consolidation of a number of plants engaged in the manufacture of rubber boots, shoes, gloves, bicycle tires, fire and garden hose, vulcanized rubber articles, insulated wire, and practically all other rubber products. Since its formation it has always been the largest individual factor in the rubber business in this country, although it is in no sense a monopoly, as probably less than 25 per cent. of the miscellaneous rubber goods made in the United States is manufactured by it and its subsidiary companies.

The company has outstanding at the present time about $60,000,000 first preferred stock, $500,000 second preferred stock, and $36,000,000 common stock. The second preferred was formerly outstanding to the extent of about $10,000,000, but has practically all been retired in the last few years by exchange for first preferred. The total outstanding capitalization in 1909 was about $70,000,000, which has since been increased to about $96,000,000. To offset this increase in capitalization the company shows an increase in the valuation of its plants and other properties amounting to more than twice the par value of the new stock authorized. Furthermore the company shows a gain in surplus amounting to nearly $15,000,000, the surplus in 1909 having been about $5,000,000, as against about $20,000,000 at the end of the last fiscal year.

It is interesting to note that the present surplus is equal to $54 per share on the common stock, or about $11 a share less than the present price of the stock. If we assume that the common stock at the time of the formation of the company was all water, the book value today should be not less than $54 per share. At the time of the company's formation the common stock certainly represented little in the form of actual property, but the fact that the average price during the first few years of its existence was about 25, indicates that the good will which the common represented had a substantial value.

During recent years the company has maintained a fairly conservative policy in its financing as well as in its manufacturing operations. It has been steadily reducing its bonded debt and at the same time has increased its assets to a thoroughly satisfactory extent. A large amount has been put back into the proper-

ties each year so that much of the water originally contained has been squeezed out.

In the last ten years the United States Rubber Company and its subsidiaries have sold bonds aggregating about $57,000,000. About $34,000,000 of this amount was for the purpose of raising new capital, while the remaining $23,-000,000 was for refunding purposes. Of the bonds sold there are outstanding today only slightly more than $30,-000,000. From this it can be seen that the company has been able to retire, each year, out of earnings, about $3,000,000 of its outstanding indebtedness.

A Large Floating Debt

The company has, however, a larger floating debt today than it had ten years ago. The floating debt now amounts to about $18,000,000. The growth of this item has been due to the rapid increase in the company's business in this period. Both the accounts receivable and the merchandise on hand show proportionate increases, so that it is obvious that the increase in the floating debt has been thoroughly legitimate. It must be said, however, that this seems to be rather too large an amount of notes for a company of this character to have outstanding, as it might be difficult for the company to obtain renewals were we to experience a prolonged period of tight money. It would probably be well for the company to convert a part of this item to one bearing an annual fixed charge.

The total present outstanding funded debt of the company is about one half as large as the amount of preferred stock now outstanding, so that it should not be difficult for the company to sell an issue of long term bonds or short term notes to refund a large part of this floating debt. As a matter of fact, there have just been sold $9,000,000 of General Rubber Co. 5 per cent. notes, taking up a like amount due on July 1 of this year. These notes were taken very rapidly by the investment public, both because of the high grade of security offered and the attractive rate of interest received by the investor.

The earnings of the United States Rubber Company for the year ended December 31, 1914, were remarkable for the reason that net profits show an increase as compared with the two preceding years, in spite of the fact that gross sales fell off about five per cent. each year. The volume of business done, was about the same as in the two previous years, the smaller receipts being the result of lower selling prices, which were due to the lower cost of crude rubber. The fact that the company was able to convert a loss in gross to a gain in net is a proof of a gain in operating efficiency which augurs well for stockholders when the business grows as it seems certain to do in the next few years. As a matter of fact reports from reliable sources indicate that practically every department of the company is now working to full capacity, whereas a year ago this was not the case, as at that time a number of departments were not working at over 75 per cent. of capacity.

Crude Rubber Prospects

The most important individual factor bearing on the profits of any rubber company, outside of the question of the volume of business done, is the cost of the crude rubber. In 1909, when the wild speculation in rubber securities was going on in London, crude rubber sold as high as $3 per pound as against a normal price at that time of 80 or 90 cents. The necessity of being to some extent independent of the fluctuations in the price of crude rubber was at that time made obvious to the United States Rubber Co., and since then the operations of the General Rubber Co. (a subsidiary corporation formed for the purpose of buying crude rubber for the company) have been greatly enlarged.

The General Rubber Co. now owns about 90,000 acres of land in Sumatra, of which more than 42,000 acres are planted. These properties constitute the largest rubber estates in the world, and will ultimately supply the United States Rubber Co. with a large part of the crude rubber it requires. It must be remembered that the company has, up-to-date, received practically no return on the large amount of money thus invested in rubber plantations. As a matter of fact the first shipments of rubber from the Sumatra plantations were received last year. Up to the present time these properties have been a constant source of cost to the

company, as more land has been acquired, cleared, and planted each year. By the end of the next five years the General Rubber Co. will probably have about 35,000 acres, the rubber trees on which will be sufficiently mature for tapping.

It is hard to estimate the gain that will accrue to the United States Rubber Co. as a result of the measures taken to grow its own rubber. Figuring on a conservative basis, however, it would seem as if the rubber obtained from the Sumatra properties should be worth not less than $3,500,000 per year, at the end of five years from now. The cost of obtaining the rubber should be no greater than that which has been spent annually for the past five years in clearing the jungle lands, planting and maintaining the properties, etc. The net gain to the United States Rubber Co. should therefore be not less than $3,500,000 per year, or *practically* 10 *per cent. on the common stock* at the end of the five-year period, *or* 2 *per cent. per annum.*

According to recent advices the position of the United States Rubber Co., as far as its supply of crude rubber for the coming year is concerned, is highly satisfactory. The company is reported to have obtained about all its requirements for the next six months at an average price of about 52 cents per pound. As crude rubber is now selling about 60 cents per pound, the advantage which the United States Rubber Co. has over many of its competitors is obvious. Added profits obtained as a result of these judicious purchases should insure the dividend for the balance of this year, even if the company's business were to show a serious falling off during the last six months of this year. Such a falling off is highly unlikely, especially in view of the fact that the industrial outlook in this country is better today than it has been for a least 18 months. Furthermore, the automobile business is in an especially satisfactory condition, so that profits from the sale of the company's "United States Tires" should be larger than in any preceding year in the company's history.

Effect of War

The effect of the war on the company's business was to increase the foreign demand for rubber boots and shoes, tires, rubber sheeting, etc. Owing to the industrial depression in this country resulting from the war, the sales of mechanical rubber goods and miscellaneous articles fell off considerably. However, the demand for tires held up in a satisfactory manner. As previously stated, operating economies more than offset the comparatively small loss in gross sales, so that the net result for the year was the best in the company's history.

The outlook for the remainder of 1915 is certainly better than was the outlook for the last half of 1914 at this time last year, so that there seems to be no reason to fear any cut in the company's present dividend rate unless there is a great change for the worse in general business conditions.

One reason which has been advanced for doubt as to the permanence of the dividend on Rubber is due to the fact that the last four years have been especially prosperous ones for this industry which, it is claimed, is on the crest of a boom. Many rubber companies which formerly paid no dividends, or which made only small disbursements to their stockholders, have been able to increase their dividends materially during this period. It has been maintained by some persons that this prosperity, due largely to the increase in the automobile traffic, would not be permanent.

It hardly seems reasonable to believe that the total volume of automobile traffic and tire consumption can do anything but increase. The war is causing a steady rise in the value of horses, while the cost of automobiles and of running them is steadily decreasing, and at the same time the life of the automobiles made today is much longer than that of the cars built a few years ago. There seems to be no question that for the majority of commercial purposes the automobile will supplant the horse more and more each day. The increase in value of horses caused by the enormous exports from this country to Europe will have a marked effect in accelerating this process of substitution of motor-driven for horse-drawn vehicles.

A better reason for the investor's doubt as to the rubber dividend is that some years ago a number of the directors (who

now have not so large an influence in the affairs of the company as in the past) made use of rubber as a speculative football. Dividend rumors would be put out around the street and the stock would have a sharp advance, but when the dividend meetings were over and the reports were made public it could be seen that the rumors had little foundation in fact, so the stock would decline to its former level. While this was not practiced in the case of rubber to the same extent as has been the case in one or two other stocks, nevertheless there was enough of it done to establish a prejudice against the company's securities.

This prejudice is slowly passing away as the conservative element in Wall Street is learning that there are real values behind Rubber common, as a careful study of the last few years' balance sheets and income statements will prove.

United States Rubber first preferred is a fairly substantial investment issue. It is entitled to dividends at the rate of 8 per cent. but is non-cumulative. Dividends have been paid on this issue at the 8 per cent. rate since 1894 with the exception of the years 1902-3-4. In 1904 5½ per cent rate was declared. Now that the common stock is established as a dividend-paying issue, the status of the preferred should be better than at any time in its history and at its present price, in the neighborhood of 107, the stock seems to be a little out of line with most industrial preferred stocks of the same general grade.

The preferred stock is fairly well distributed, there being a large number of small stockholders. As previously stated, however, the common stock has been one that the investment public has been chary in buying, and there are comparatively few small stockholders, considering the size of the corporation. The largest individual interest is held by the Brady family, the late Anthony N. Brady having owned a large amount of the common stock. It is interesting to note that although the preferred stock was entitled to dividends at the rate of 8 per cent. per annum, and could usually be purchased to yield nearly 8 per cent. Mr. Brady made his investment in the common stock at a time when its dividend prospects were considered comparatively poor by most persons in Wall Street. As long as the income yield the Brady family receive from their holdings of Rubber common is between nine and ten per cent., it does not seem likely that they will make any endeavor to dispose of the stock which they now hold.

After summing up present conditions and considering the record of the company's accomplishments, U. S. Rubber common certainly appears to have marked speculative possibilities. The mere fact that after some years of weary waiting they are beginning to receive a return upon the investment in the rubber plantations in Sumatra, and that this return will increase materially each year for the next five years should be sufficient to warrant higher prices for the stock.

The company was able to earn about 8% on the common stock last year, and present indications are that not less than 10% will be earned this year. These earnings will figure 15% on the price at which Rubber is selling at present. At the present dividend rate, the outright purchaser will receive 9¼% on any money invested in the stock.

Investment Inquiries

NOTE.—Answers as published in this magazine are selected and condensed from the very large number of inquiries received from our readers. All such letters are answered by mail in advance of publication, hence stamped and self-addressed envelopes should accompany them. Subscribers' inquiries are given the preference in order of answering.

M. K. & T. Bonds.

I hold several M. K. & T. first mortgage and refunding 4% 2004 bonds, and also several M. K. & T. of Texas 5% 1942 first mortgage bonds. I observe that the affairs of this railroad appear to be getting in a somewhat complicated condition and it is possible that a receivership may result.

I would be glad to have the benefit of your opinion as to whether or not you think a receivership is going to occur, and also whether you think it would be advisable to sell out the above bonds now or to hold them and carry them through a receivership should such ensue.—Y. P.

We are of the opinion that receivership will not occur in M. K. & T. We do not think any is necessary. The notes due May 1 have been extended for another year. In the meantime it is expected the company will improve its position so that any danger of a receivership will be obliterated. It is expected that during the year some method of arranging for future financial needs will be worked out.

Certainly the company can earn its interest charges which is a big factor working for the bonds and against the extreme of a receivership.

Rock Island

J. G.—The Rock Island stocks that are now worthless are the stocks of the old Rock Island Holding Company, which held the stock of the Chicago Rock Island & Pacific Ry. It is the stock on the railway that is selling around 20. When the Rock Island Holding Company came to grief, and the collateral bonds failed to pay interest, this railway stock, which was pledged for the bonds, came out into the market.

Rumely

P. S.—Rumely is being brought through its trying position by the receivers as best they can, and the business is being run on a conservative basis. A plan of reorganization may be presented when the company shows some solid basis on which to build such a plan. In the meantime the receivers are operating as economically as possible. With such a large amount of stock out you must not expect much for your common shares.

United Shoe Machinery

J. D.—We would not advise you to buy United Shoe Machinery just now. With the government suit pending the outlook is uncertain. It is quite possible that the government might carry it to the Supreme Court, although the present administration is not pushing these corporation suits as energetically as previous administrations. If it goes to the Supreme Court finally, no one can tell how many months it would be there.

Erie Preferred Stocks

J. A.—The Erie preferred stocks (1st pfd. 40¼, 2nd pfd. 34) are two of the best speculative possibilities on the list. The fundamental position of Erie is sound, and when the market starts on a long upward trend all of the Erie issues are quite certain to be prominent in the trading.

Missouri Pacific

W. F.—Missouri Pacific (12½) is a stock the future of which is very uncertain. The bankers back of the company have avoided bankruptcy by extending most of the notes that should have been paid off on June 1, but they will have to work out some plan for keeping the company out of trouble in the future.

The railroad is a good property, but it has not been well handled. There must be some readjustment of the company's securities. This readjustment is being talked about constantly by those in control. The chances are that when a plan for readjustment is brought out, the common stockholders will be asked to pay an assessment on their stock.

Emerson Phonograph

What is the capitalization of the Emerson Phonograph Co.? Are there any bonds? It seems to me that the question as to whether earnings are large or small depends upon the amount of capital stock to which they are applied. Have any orders been actually booked?—J. A. M.

The Company is capitalized at $1,000,000, all one class of stock. There are no bonds, no preferred stock, or other obligations. The official circular of April 17th last estimated earnings of nearly $3.50 per share for the first year. The estimates on the $3 phonographs are being borne out by the fact that up to June 22d the Company advises us that 30,000 machines have been sold, against preliminary estimates of 100,000 for the year, yet the Company has been in business only two months. The capitalization was purposely kept down in order that earnings per share would be large, and so that those who become stockholders in the early stages of the business will participate to the fullest extent. We are advised that the Company's productive capacity on the $3 machine has been sold for the balance of 1915 and that an additional output of machines is being arranged for. We regard the Company as having a very promising future.

Bargain Indicator Showing Comparative Earnings

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the ten per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand well up in this table, because its price is low compared with latest available earnings.

INTENDING PURCHASERS should read all notes carefully and consult "Investment Digest." We gladly answer all inquiries.

Railroads	Present div. rate.	Div. yield on present price.	Surplus available for dividends, or earnings on par for fiscal year ending on any date during 1908.	1909.	1910.	1911.	1912.	1913.	1914.	Present price.	Earnings last fisc. year on present price.	
Seaboard Air Line pfd....	0	0	....	....	....	7.6	3.7	7.3	6.9	34	20.3	1915 earnings much reduced.
Southern pfd	0	0	0.7	6.0	9.6	11.1	11.3	11.8	8.1	51	15.9	Last dividend passed; 1915 earnings small.
Twin City Rapid Transit com	6	6.3	8.3	9.9	10.9	11.0	11.3	13.0	12.8	95	13.5	
Chesapeake & Ohio com...	0	0	4.4	6.4	10.0	5.1	6.8	5.2	4.7	38	12.4	$15,000,000 earnings to go into property by 1917.
Kansas City Southern com.	0	0	2.6	3.4	2.2	2.7	0.2	2.7	2.9	26	11.2	
Union Pacific com........	8	6.3	16.2	19.1	19.2	16.6	13.8	15.1	13.2	127	10.4	
Atlantic Coast Line com...	5	4.6	5.6	9.4	12.0	12.8	12.1	12.0	10.7	108	9.8	Dividend reduced from 7%.
Brooklyn Rapid Tran. com	6	6.7	4.1	4.2	5.6	6.8	8.3	9.2	8.7	89	9.7	Subways will doubtless enlarge earnings eventually.
Canadian Pacific com......	10	6.6	10.6	8.6	16.0	17.3	19.6	19.6	14.5	153	9.5	Earnings still poor.
Reading com	8	5.5	12.7	13.2	16.1	13.8	12.5	22.7	13.4	145	9.2	Including betterments. Suit filed against control of Jersey Cen.
Lehigh Valley com........	10	6.9	19.2	15.4	23.0	16.5	13.2	16.9	12.5	144	8.7	Good margin over dividend this year.
Southern Pacific com.....	6	6.9	7.4	10.2	13.0	9.6	7.9	9.8	7.5	87	8.6	Gov. oil land victory in Calif. doesn't affect.
Norfolk & Western com...	6	5.8	7.1	8.7	11.6	8.9	9.9	10.6	8.9	103	8.6	Controlled by Penna.
Louisville & Nashville com	5	4.2	7.5	14.3	17.3	14.2	15.9	12.7	9.3	118	7.8	Contr. by Atlantic Coast. Div. reduced from 7%.
Buff., Roch. & Pitts. com..	4	5.0	6.2	6.3	7.3	8.0	8.4	10.2	6.0	80	7.5	Div. recently reduced from 6%.
Atchison com	6	6.0	7.7	12.1	8.9	9.3	8.2	9.5	7.4	100	7.4	Est. 9% on common year ended June 30, 1915.
Northern Pacific com......	7	6.6	12.8	10.7	9.0	8.2	7.9	8.7	7.9	106	7.4	Large equities in lands and C., B. & Q.
Delaware & Hudson com..	9	6.1	12.4	12.2	12.5	12.3	13.0	14.5	10.8	147	7.4	
Chicago Great Western pfd	0	0	....	....	1.2	1.9	0.4	2.8	2.0	29	6.9	
Chic., Mil. & St. Paul com	5	5.5	9.5	7.2	8.0	7.1	1.6	8.6	6.3	91	6.9	Will barely earn div. this year.
Del., Lack. & Western com	20	3.9	40.8	52.8	35.4	31.8	33.2	32.0	28.3	408	6.9	
Great Northern pfd	7	5.9	7.1	8.3	8.5	8.3	10.3	11.0	8.2	118	6.9	Has large equity in C., B. & Q. and Canadian extensions.
Illinois Central com.......	5	4.7	8.4	7.4	7.1	10.3	3.2	6.0	7.4	107	6.9	Div. reduced from 7%.
Minn., St. P. & S. S. M. com	7	6.0	8.4	8.8	15.7	5.3	11.1	14.7	7.8	116	6.7	Pfd. and com. share above 7%. Contr. by Can. Pac.
Pennsylvania R. R com...	6	5.6	9.0	11.0	9.3	8.6	9.3	8.9	6.8	107	6.3	Divs. paid since 1856.
Chicago & Northwest. com.	7	5.6	11.2	11.4	7.7	8.0	7.1	9.6	7.9	126	6.3	Com. div. being earned easily.
Baltimore & Ohio com.....	5	6.7	5.1	7.1	8.9	6.9	7.6	7.2	4.5	75	6.0	Est. 5% earned on com. year ended June 30.
St. Louis & S. W. pfd....	0	0	1.6	2.9	4.1	6.1	8.2	9.4	1.7	33	5.1	
New York Central com....	5	5.7	5.1	7.7	6.0	5.7	6.2	5.9	4.0	88	4.5	Now consolidated with Lake Shore.
N. Y., Ont. & Western com	0	0	2.6	2.3	2.3	2.0	0.8	2.1	1.1	28	3.9	
Erie 1st pfd	0	0	—3.4	6.1	12.1	11.2	7.0	15.3	1.4	41	3.4	Entitled to 4%.
Mo., Kansas & Texas pfd..	0	0	6.1	7.2	8.0	13.6	0.1	17.8	0.4	30	1.3	Doing better in earnings.
Pitts., C., C. & St. L. com.	0	0	7.2	9.8	6.1	7.0	10.9	—2.0	0.9	71	1.3	Pfd. and com. share above 5%. Contr. by Penna.
Wisconsin Central com....	0	0	—0.6	0	2.5	—4.3	0.3	4.0	0.4	33	1.2	Leased to M., St. P. & S. S. M. (Can. Pac. System).
Missouri Pacific com......	0	0	3.7	1.3	3.3	—6.3	—2.4	1.9	0.1	11	0.9	Gould influence eliminated.
Colorado & Southern com.	0	0	4.8	4.9	7.3	5.2	2.6	3.2	0.2	29	0.7	Controlled by C., B. & Q. (Hill management).
N. Y., N. H. & Hartford com	0	0	5.4	7.4	10.3	7.1	8.5	5.0	0	63	0	Gov't breaking up its control of subsidiaries.
Minneapolis & St. L. pfd..	0	0	2.7	—2.4	1.9	1.5	—11.9	7.7	—1.0	37	0	Soo Line denied deal to take over this road.
Earnings on the following are shown before deduction of interest payable on Western Pacific bonds:												
Denver & Rio Grande pfd.	0	0	7.7	6.6	8.3	4.7	2.0	4.2	2.8	13	21.6	Contrs. and finances W. Pac., which doesn't earn fixed charges.

Industrials

	Present div. rate.	Div. yield on present price.	Surplus available for dividends, or earnings on par for fiscal year ending on any date during 1909.	1910.	1911.	1912.	1913.	1914.	1915.	Present price.	Earnings last fisc. year on present price.	
General Motors com......	0	0	....	....	15.7	17.3	38.8	37.5	....	152	24.7	Stock melon expected soon.
Bethlehem Steel com......	0	0	—1.6	6.5	6.7	6.9	27.4	30.6	....	160	19.1	
Am. Beet Sugar com......	0	0	7.0	7.3	10.9	13.5	3.9	2.3	8.7	50	17.4	Div. this Spring uncertain. Co. conserving resources.
Central Leather com......	3	7.5	6.3	—2.1	—5.1	8.6	5.2	6.4	....	40	16.0	War orders big.
S. S. Kresge com.........	6	4.4	....	....	....	8.7	14.7	20.4	....	134	15.2	
Amer. Agricul. Chem. com.	4	7.7	7.5	10.4	9.1	7.3	5.2	7.7	....	52	14.8	Common div. safe. Expected 1915 net to equal 1914.
U. S. Realty & Imp. com..	4	10.3	9.2	9.7	9.4	8.3	9.2	8.2	5.4	39	13.9	Div. resumed Feb. 1st. 1915 earns. 11 mos.
American Malt Corp. pfd..	2	7.4	6.2	3.0	8.8	9.3	4.6	3.7	....	27	13.7	Divs. in arrears 26%.
Inter. Paper pfd..........	2	5.3	2.7	4.5	5.3	5.4	4.4	5.1	....	38	13.4	6% cum. div. in arrears 28%.
Union Bag & Paper pfd...	0	0	6.2	5.4	5.5	5.3	1.6	1.7	3.3	25	13.2	
U. S. Rubber com.........	6	9.4	4.0	7.8	2.2	6.3	9.8	8.0	....	64	12.5	
Inter. Harvester of N. J. com	5	4.8	17.8	14.8	14.2	15.2	14.5	13.4	....	104	11.8	Earned about 10% on common 1914.
American Can pfd........	7	6.9	6.7	6.8	7.1	14.2	9.7	10.7	....	101	10.6	Gov't suit pending. 1915 expected best ever.
Sears, Roebuck com.......	7	5.1	18.4	20.5	17.0	19.3	21.2	14.5	....	137	10.6	Stock div. 50% com. Mar. 1915.
F. W. Woolworth com....	7	6.7	....	....	....	8.9	11.0	10.7	....	104	10.3	
Va.-Carolina Chemical com	0	0	7.1	10.4	3.1	3.3	0.5	3.4	....	33	10.3	Pfd. divs. defrd. Co. wants to husband cash.
American Car & Fdry. com	2	3.6	2.6	6.6	7.1	2.5	4.1	5.5	....	55	10.0	Nothing earned 1915 fiscal year. Getting war orders.
Corn Products pfd........	5	6.4	8.2	6.9	7.0	6.8	7.6	7.7	....	78	9.9	1914 profits equal 1913.
North American com......	5	6.9	6.0	6.2	6.2	7.2	6.7	6.4	....	72	8.9	Controls St. Ry. & Elect. Light Cos. in No'west.
Distillers' Securities	0	0	2.2	2.3	3.1	1.5	1.2	2.3	....	26	8.8	Sold its holdings including alcohol stock.
Tenn. Cop. (par $25) com.	12	8.1	6.8	8.9	8.1	21.9	19.3	13.0	....	37	8.8	Doing big business.
Utah Copper (par $10) com	30	4.5	29.5	34.6	39.7	53.5	50.7	53.8	....	67	8.0	
National Biscuit com......	7	5.9	7.4	7.7	9.8	10.0	9.6	11.7	9.5	119	7.9	
Western Union com......	4	5.9	5.8	5.7	5.4	4.0	3.2	5.4	....	68	7.9	Earnings this year will be about 5½% on stock.
Chino Copper (par $5) com	40	4.4	....	....	....	50.6	70.3	68.8	....	$45	7.6	Dividend reduced.
American Tel. & Tel. com.	8	6.4	9.0	10.4	10.0	9.3	9.6	9.4	....	124	7.6	Large equities in sub. co. earnings. Will cut construction program greatly.
Am. Smelting & Refin. com	4	5.0	7.7	7.1	9.1	10.1	7.5	6.0	....	80	7.5	Doing a big business.
Peoples Gas L. & C. com..	8	7.0	8.9	9.0	8.9	7.5	8.2	8.6	....	115	7.5	
Ray Cons Cop (par $10) com	15	6.2	....	....	2.1	13.3	18.5	16.5	....	$24	6.9	Dividend resumed.
General Chemical com.....	6	2.8	14.4	15.6	15.5	14.4	13.4	13.3	....	214	6.7	Now earning about same as 1914.
General Electric com......	8	4.7	7.4	16.7	14.5	16.2	12.9	11.1	....	172	6.5	Working high capacity. Big war orders.
Amalgamated Copper com.	2	2.7	2.4	3.9	3.9	4.3	5.8	4.8	....	75	6.4	Controls Anaconda and other Butte and Mexican Mines. Being dissolved. 1915 earns. 16 mos.
American Linseed pfd.....	0	0	5.8	4.5	2.6	—2.8	3.0	1.8	....	30	6.0	Not doing well. War hurt.
Consol. Gas (N. Y.) com..	6	4.8	6.7	7.4	7.6	7.5	7.2	7.1	....	125	5.7	Sub. cos. have large undistributed surplus.
National Lead com........	3	4.6	6.2	4.3	3.6	3.8	3.6	3.7	....	65	5.7	Increase price lead helping.
Pullman com.............	8	5.0	10.9	11.6	9.3	8.7	9.3	9.0	....	160	5.6	Abnormal amounts charged to depreciation.
Pittsburgh Coal pfd.......	5	5.4	3.0	7.2	5.1	7.5	10.1	5.1	....	93	5.5	Production heavily decreased.
Pacific Mail com..........	0	0	—1.7	—1.1	—1.0	—0.1	0.1	1.5	....	30	5.0	Expected to dissolve before Dec. 31.
Westinghouse Electric com	4	4.1	....	7.6	12.3	6.2	8.2	10.8	4.7	98	4.8	Large war orders received. Rearranging its finances.
Republic Iron & Steel pfd.	0	0	8.1	11.7	7.8	8.9	12.4	4.1	....	88	4.7	1914 worst year in Co.'s history.
American Cotton Oil com..	0	0	10.4	6.8	—1.2	6.5	3.4	2.0	....	48	4.2	Controls 17 sub.-companies.
Amer. Sugar Refining com.	7	6.4	3.9	3.8	9.6	8.7	1.9	4.3	....	109	3.9	Helped by war. In 1914 earned 4¾ on com. bef. dep.
Amer. Locomotive com....	0	0	—3.1	1.3	7.3	0.5	17.7	1.3	....	51	2.5	$50,000,000 war orders cause big rise in stock.
Amer. Hide & Leather pfd.	0	0	11.2	—5.6	0.8	3.2	3.6	0.8	....	33	2.4	War orders big item.
Sloss-Sheffield com........	0	0	6.6	2.0	—0.6	0.8	2.1	0.2	....	36	0.6	Last div. on pfd. in scrip. Cash being saved.
Pressed Steel Car com....	0	0	7.7	5.5	0.1	0.8	10.5	0.1	....	49	0.2	Getting big war orders.
United States Steel com...	0	0	10.5	12.3	5.9	5.7	11.1	—0.3	....	60	0	Gov't lost suit. No divs. in sight.
U. S. Cast Iron Pipe pfd..	0	0	1.2	4.4	3.9	4.2	4.7	—0.5	....	38	0	Controls 75% of U. S. production.
Railway Steel Spring com.	0	0	5.3	6.0	0.3	5.8	1.3	—4.2	....	33	0	1914 bad year. Def. after pfd. div.
Nat. Enam. & Stamp. com	0	0	1.1	1.0	1.1	—1.6	1.9	—0.3	....	17	0	
Colorado Fuel & Iron com.	0	0	2.1	4.0	3.2	4.8	4.6	—3.1	....	32	0	Strike affected Co.'s 1914 earnings badly.
American Woolen com....	0	0	5.2	2.2	2.1	2.1	—19.9	0	....	28	0	Will earn whole 7% div. on pfd. in 1st 6 mos.
Amer. Steel F'dries com..	2	5.6	0.1	6.1	—1.5	4.6	6.1	—1.4	....	36	0	1914 very poor year. Deficit $575,162.

Investment Digest

Allis Chalmers.—WAR ORDERS to the amount of $8,000,000 to $10,000,000 understood to have been received. Sales now being billed running close to $1,000,000 a month. Improvement in copper business is creating demand for mining machinery.

Amer. Ag. Chemical.—COLLECTIONS in South getting better. If it were not for temporary unfortunate conditions in the South company could have gotten itself out of floating debt.

Amer. Brake Shoe.—NEGOTIATING a large order for war material it is reported. Said to include "several millions." Business lately has been good and earnings averaging about up to last year.

Amer. Can.—BUSINESS first four mos. of current year substantially larger than last year. Co. still negotiating for large foreign war orders. Expects to show about 8% on common stock this year.

Amer. Coal Products.—BUSINESS INCREASED through large traffic in chemicals involved in war orders. Larger dividends predicted. Reported a capital reorganization will be undertaken before long.

American Hide & Leather.—EARNINGS for the current quarter ending June 30 likely to be materially less than reports recently circulated. Higher prices for leather expected to make a better showing for the company later.

American Sugar. — NEW MANAGEMENT at the helm in the person of new president who was formerly vice-president. Co. earning its dividend twice over. Expected to earn between 12% and 14% this year as against drawing on surplus for dividends last year.

American Writing Pap. Co.—REORGANIZATION practically decided on by the directors. Bonds mature in 1919, but it is thought better to get the company in proper shape now. Co. has no floating debt. Reorganization will be friendly. Expected the heavy capitalization will be materially reduced.

Atchison.—NEW FINANCING expected before a great while in the form of additional bonds. Co. has asked authority of Kansas Utility Comm. to issue $10,808,000 4% bonds. Co. not in need of immediate funds, but wants to have them ready. Expected to earn 9% for stock this year.

Baldwin Locomotive.—PROFITS of from $5 to $8 per share expected to accrue from the order for rifles from Russian Government. Co. also has order for 250 locomotives amounting to $6,000,000.

Balti. & Ohio.—DIVIDEND of 5% expected to be earned in current year. Net earnings for several months have been showing improvement.

Bethlehem Steel.—CONTROL of company sought by Germans said to be impossible. Understood President Schwab would not think of selling controlling interest.

Canadian Pacific.—DIVIDEND not likely to be reduced. The 7% dividend from rail operations will be earned with a margin of over $1,000,000.

Chesapeake & Ohio.—DIVIDEND on stock passed. Earnings for the year to end June 30 indicate about 4% on stock. Gross earnings largest in road's history, but changed character of traffic has cut net profits.

Chic. Pneumatic Tool.—OPERATING at about 75% to 80% of capacity. Prices averaging about the same as a year ago. Management negotiating for a large contract for munitions.

Chicago & Northwestern.—EARNINGS expected to show full 7% earned during the year with less than ½% over which compares with a trifle less than 1% remaining last year. Traffic all over line is picking up. Co. saved considerably in transportation costs over past year.

Chic., Mil., & St. Paul.—DIVIDEND not expected to be fully earned this year, but throughout the year Co. has been doing well in maintenance. Autumn business expected to be very materially increased when crops begin moving. Net for 10 months was $1,755,360 lower than last year.

Cin. Ham. & Dayton.—REORGANIZATION plans will not be attempted for some time. Conditions are practically unchanged over the past year.

Continental Can.—DIVIDEND BASIS expected to be made 5% this summer if present crop prospects are fulfilled in the next 2 mos. Sales so far this year have shown an improvement of 12% over corresponding period of last year, which, if continued, may show $1,500,000 net, which after preferred dividend would leave 14% on common.

Corn Products Co.—EXPORT BUSINESS doing well. Co. grinding about 80,000 bushels of corn daily. Earnings indicate Co. will close year with a substantial surplus.

Cramp Shipbuilding.—CONTROL of this company by Bethlehem Steel not true. Co. likely to do a lot of business for Beth. Steel, but not be leased to it.

Denver & Rio Grande.—GROSS revenues for the year to end June 30 will be about $1,467,000, or 6.3% lower, as compared with the fiscal yr. 1914. By reduction of operating expenses net will show 7.2% ahead of last year.

Distillers Sec.—SALE OF majority holdings of common stock of Industrial Alcohol netted the Co. $3,000,000, which was to be used for getting the company out of floating debt. Co. doing a big business in alcohol for powder manufacture.

Dominion Steel Corp.—DECREASE IN surplus for dividends for the year ended March 31 were $1,000,000 less than the year previous.

Du Pont Powder.—MELON expected to be cut in the Fall. Not sure whether it will be stock or cash. Said to be possibly from 50% to 100%.

Electric Boat.—DIVIDENDS TO BE resumed, the full rate of 8% to be put on the preferred with a payment on the common possibly 4%. While it has large orders it is believed the reports have been exaggerated.

Emerson Phonograph.—SALE OF 27,600 of the Co.'s $3 phonographs has been consummated, which carries with it a large order of the 10c. discs, the amount of which has not yet definitely been decided. Sales of an additional 75,000 machines are expected to same parties in the coming year. Co. also announces it has closed contract for the manufacture of 200,000 of the $3 machines. John N. Van der Werff, one of the engineers of the Carnegie Steel Co., has become consulting engineer of the Co. Henry C. Lomb, formerly of the Bausch & Lomb Optical Co., Rochester, N. Y., and a director, has been elected secretary, vice Miles R. Bracewell.

Erie R. R.—NET FOR ten months declined $1,206,000, but maintenance was kept up to a high standard during the year. Management keeping the road up with eye to future traffic rather than showing of surplus for dividends.

General Electric.—WAR ORDERS to the amount of $75,000,000 said to have been taken at a large profit. Expected that this profit will come to the stockholders in the form of special stock or cash dividend.

General Motors.—PROFITS OF FROM $9,000,000 to $10,000,000 expected to show this year as compared with $7,947,000 in 1914. If expectations are realized showing will be nearly 50% earned on common. Not expected anything on the "melon" question will be done before October.

General Rubber.—SOLD $9,000,000 short-term debentures for general purposes.

Goodrich Co., B. F.—50% INCREASE in output for the first 5 months over similar period in 1914. While directors will not discuss dividends on the common, rumor has it that dividends will begin this year.

Guggenheim Exploration. — DISSOLUTION rumors idle talk. Officials say there is nothing in it. Important distribution expected to be made to stockholders but just what it will be and what will follow is not intimated.

International Harvester.—EARNINGS of the Int. Har. Corporation affected adversely because of falling off of its foreign business, but those of the company held up well. The Co. does the domestic business.

International Merc. Marine.—EARNINGS for the past 6 months said to have been very good.

International Steam Pump.—MAY BUSINESS exceeded $1,000,000 gross, which was $100,000 better than expected. Current month showing the same level of business. Indirect benefits only have been received as a result of the war.

Kansas City Southern.—NET EARNINGS decreased about $304,000 in ten months ended April 30.

Kelly-Springfield Co.—OPERATING on a 24-hour schedule. Sales in 1914 were approximately $5,000,000. Business this year is running at the rate of $8,000,000. Co. probably earning 30% on its stock compared with 22% a year ago.

Lackawanna Steel.—WAR ORDERS in steel and acids expected to make this year the best in the Co.'s history.

Loose-Wiles Biscuit Co.—GROSS gained for the quarter ended March 31 12%. Net profits did not gain in the same proportion owing to the higher cost of material. Net profits are more than sufficient to pay the full 7% on the 1st preferred stock.

Missouri, Kan. & Tex.—IMPROVEMENT in earnings marked. In ten months net increased over same period last year $1,488,966. Co. may show a balance after charges this year of approximately $2,500,000.

Missouri Pacific.—FINANCIAL PLAN for getting the company in better position is being worked out. Some weeks will elapse before it is completed.

New York, New H. & H.—NET EARNINGS for 10 mos. ended April 30 increased about $230,000 over same period last year.

Norfolk & Western.—EARNINGS expected to show 8½% on the stock. Unusually liberal maintenance has been the order for the past year. Decline in net earnings over 10 mos. ended April 30 about $293,000. Business picking up.

Pacific Mail Steamship.—LIQUIDATION of the property expected through sale of its steamships. The Seamen's act and the prohibition of the Canal are charged with forcing the company to suspend as an American company.

Republic Iron & Steel.—RESUMPTION of dividends on the preferred stock expected

within the next six months. Expected it will go back to a 7% basis.

Rock Island.—GROSS EARNINGS for the year to end June 30 expected to be the largest in history of the company, but additional charges created during year will make the net increase small, possibly $600,000.

St. Louis-San Fran.—NET INCOME increased about $1,000,000 for the ten months ended April 30, although gross declined about $2,000,000. Efficient management by the receivers is making a better showing for the property. Better conditions in the property are believed to foreshadow an early and successful reorganization.

Savage Arms.—NET PROFITS for the year on a reported war order of $10,000,000 expected to be more than $500,000, which, with profits on domestic business, is expected to make showing of 70% earned on the stock. 6% has been paid since 1909.

Southern Pacific.—GOVERNMENT victory in regard to return of lands in California does not involve any of Southern Pacific Co.'s valuable oil lands. Even though the land in question is of little value the S. P. Co. will take the case to the Supreme Court.

Studebaker.—SALES INCREASED 15% during the past five months over the same period of last year. Company is doing a big business in all its products.

Tennessee Copper.—LARGE EARNINGS being made on sale of its sulphuric acid. A large contract with Du Pont Powder Co. has been closed, which it is expected to be very profitable for the company.

United Cigar Stores.—AMALGAMATION of this Co. with Riker-Hegeman Drug Co. believed to be imminent. Plan has been waiting on the attitude of government authorities.

United Shoe.—EXTRA DIVIDEND of 10% in cash and 10% in stock declared. Although the Co. won in the lower court, government has appealed it to the Supreme Bench.

U. S. Cast. I. Pipe & F. Co.—ANNUAL report for year ended May 31 will show a profit compared with a deficit of $60,000 for the previous year.

United States Ind. Alcohol.—SYNDICATE supposed to be in connection with Standard Oil interests took over the majority holdings from the Distillers Securities Corp. at about $40 per share.

U. S. Rubber.—BUSINESS IN automobile tires very large, being 30% ahead of last year, same time. Other general business in good condition.

United States Steel.—OPERATING IN excess of 80% capacity, due largely to foreign business, although domestic business is picking up steadily. Unfinished orders mounting.

Virginia-Carolina Chem. — RESUMPTION of dividends expected on the preferred stock within a short time.

Westinghouse Electric. — DIVIDEND was not increased from 4% to 6%, as was expected. Believed the company will get much larger amount of war orders in addition to the $60,000,000 now understood that it has.

Willys-Overland.—ORDERS were 20,000 cars ahead of shipments on June 8. Gained 54% in May sales. Sales so far this year have gained 25% over a year ago.

Woolworth, F. W.—SALES FOR MAY increased $436,484 over May year previous and for five months ended May 30, $1,269,717.

SPECIAL NOTICE

Owing to our inability to secure certain information of value in time for publication in this issue, Part II of "The New New Haven," by John J. Leary, Jr., will appear in our next issue, dated July 10.

MINING AND OIL DEPT.

Why Spelter Has Advanced

Sensational Profits in Zinc

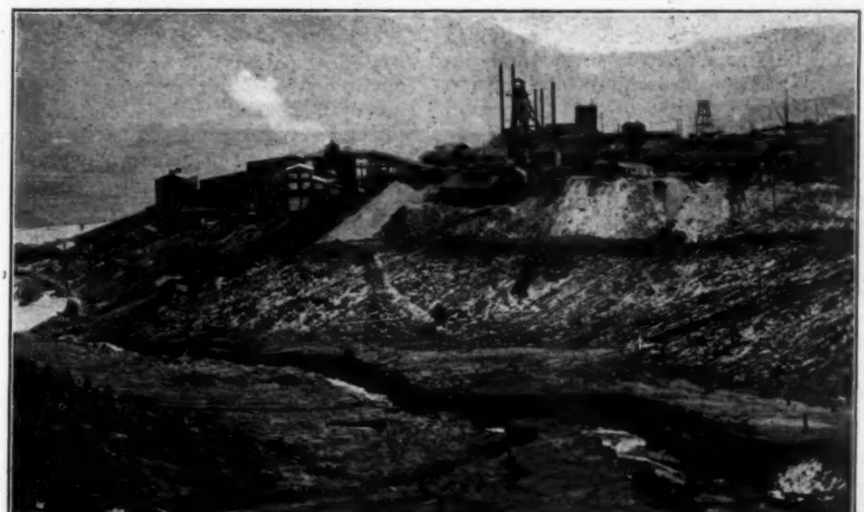
The Outlook for Butte & Superior and American Zinc Lead, and Smelting

By C. S. BURTON

SINCE one of the spectacular markets of the United States, following the outbreak of the European War, has been that in spelter, it will not be amiss to define as briefly and simply as may be, what spelter is, and where and how it is produced. Spelter is the trade name for commercial zinc. The word is derived or adopted from the word "spiauter," which is the name for zinc in India. It was in the far East that the art of winning metallic zinc from its ores was first developed. Its principal uses are in making brass, of which it makes one part to two of copper, and in galvanizing iron products. Its purity depends mostly upon its freedom from lead.

The peculiar situation existing in the spelter market hinges on a combination of circumstances. Up to the time when hostilities began in Europe, the dominating factor in the zinc markets of the world was the German cartel or syndicate of metal merchants, organized frankly for the purpose of controlling the zinc market. Under the guidance of this syndicate, the Australian zinc producers were given a very large place and the ores from the Broken Hill were smelted and refined under long-time contracts with the German and Belgian smelters. These smelting plants were located in what has since been the scene of the fiercest fighting on the western battle line and are now, it is unnecessary to say, very much out of business.

There is a grave question as to what is eventually to be done with the existing contracts between the Belgian and German smelters and the Australian producers, but in the meantime the demand for spelter has grown almost out of hand. Our production has been increased from 364,000 tons in 1914, of which we con-



The Mill and Dump at Butte & Superior

sumed 314,000 tons, to an output at the rate of 600,000 tons per annum, all of which is being consumed and frantic bids made for all "spot" metal available. This increase as noted is a little more than equivalent to the average production of the Australian mines.

Production of Zinc

Ordinarily it is estimated that a pound of zinc costs 5.4 cents to produce. The matter of figuring profits, however, on the production of specific mines is more difficult than one would imagine. Zinc ores as a first step are sent to the concentrator, where a product is obtained that will run from 40% to 60% zinc, with some lead; in the case of Butte & Superior the ore has also small percentages of gold, silver and copper. The values recovered from all other metals are, as a matter of convenient practice, simply credited as so much by way of reduction of the cost of producing zinc.

The smelting of zinc ores is a process depending primarily upon the matter of fuel supply. The actual work itself is a matter of distillation in retorts, and for this reason the percentage of metal in the concentrate becomes a very important element and makes necessary a constantly sliding scale of smelting charges, which goes down as the concentrate goes up, but this is not the only sliding scale to be reckoned with in getting at smelter charges. As the spelter market goes up, the profit so increasing has to be divided with the smelter in the form of an increased charge for each advance in price.

The average price of spelter in 1914 up to August was around 5¾ cents, dropping to below 5 cents just at the time when war was declared. Since that time the price line has climbed almost straight up the chart, to a recent high mark of 29c. per pound.

The two concerns which have had recently the larger share of the spotlight in the spelter market have been the Butte & Superior and the American Lead, Zinc & Smelting Company, both of which concerns have found themselves carried high on a flood tide of unexpected prosperity. It is easy to see that on the one hand, the public does not appreciate the tremendous profits which these concerns are making and, on the other hand, the exaggerated and hysterical condition of the demand for metal makes analysis opportune.

Butte & Superior

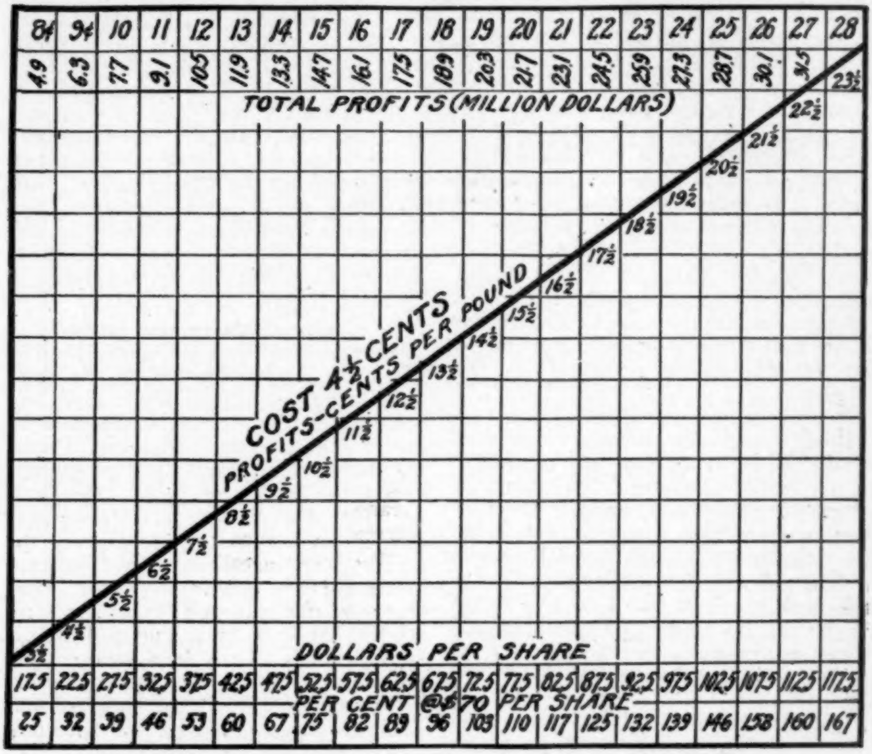
Perhaps nothing could better illustrate the changed conditions than reference to a volume of Stevens Copper Handbook of 1908, in which the late author of this work says, of the Butte & Superior, "The property is outside of the proven copper zone of Butte, but if the popular theory is correct, and zinc ore is succeeded by copper at depth, the Butte & Superior has excellent prospects of making a good mine." Certainly the prospect has become a realization, but not just in the way Mr. Stevens anticipated.

As may be understood the mine was originally opened as a copper property. It had a very considerable period of difficulty in its earlier days, but about three years ago the mine was taken up by Mr. D. C. Jackling and his associates and since that time has been pushed forward until it is now very much the largest single zinc producer in the United States.

The lands owned by the company aggregate 165 acres, and the plant is one of the most complete of its kind. Concentration is accomplished by flotation and the concentrates are shipped part to the American Metal Company and in part to the American Zinc, Lead & Smelting Company's smelters in Kansas.

The output of the Butte & Superior for the first quarter of 1915 was 70,634,000 pounds of zinc concentrates, containing 52.92 per cent. of zinc, this equals 37,382,742 pounds of zinc, of which, however, 15 per cent. is lost in smelting, leaving a net production of 31,875,331 pounds. Figuring a selling price of eight cents, the management estimated this production maintained for the year would show $17 per share available for dividends.

As a matter of fact there has not been any time since the middle of that quarter when spelter could not be sold for much better than eight cents per pound. The recent sensational advances carried the price to a high of 29 cents, though, it is not likely that any business was done at this figure. Such bids are usually for "spot" metal, that is, metal immediately deliverable, and must not be taken as rep-



ESTIMATED EARNINGS OF BUTTE & SUPERIOR

resenting a demand for any considerable quantity.

The Butte & Superior management state that the output of the mine has been sold well ahead, at least in part at prices better than eight cents. In a market, where the sellers were begged to name their own prices, it can be but a matter of conjecture, as to the figures at which sales have been made. It would seem safe to take a figure of ten cents, though one would say that even better prices ought to have been easy to secure.

The chart which we have prepared shows an increasing scale of profits that opens one's eyes. There are, however, some allowances to be made against the figures as they work out. If the production of the first three months of the year were maintained without increase net production would be, after deducting smelter loss, 127,500,000 instead of 140,000,000 pounds, forthcoming figures will in all probability show an increase of production, under the stimulus of the high prices prevailing, so that the estimated production may not be too large. It may develop, however, that being good miners, the management will handle ore of a somewhat lower grade than would be the case with metal at normal prices. There is lots of ore in the Butte & Superior that can be handled now at a fancy profit, ore that would not be run through the mill with spelter at six cents a pound. This will reduce the grade in the concentrate and returns per ton will not be so high, just how far this will throw estimated profits off from our calculation is hard to tell.

We mentioned still another sliding scale factor, the contract with the American Metal Company, provides for a charge of $14 per ton on 5-cent spelter; ten per cent. of this smelting charge is added for each advance of one cent in price. As this works out it would mean that the smelting company receives about

one third of the profit above mining and milling costs on spelter at five cents, leaving twenty-eight dollars per ton or .014-cent per pound profit for the mining company. With spelter at fifteen cents, the smelting charge on the rising scale in force is doubled and is twenty-eight dollars per ton; while on twenty-cent spelter—the nominal current price—the smelting toll would be $35 per ton. It would be a very difficult matter to calculate costs on such a market as almost everything in the mine would pay to run through the mill, so long as it could be concentrated into a product that would not be too highly penalized at the smelter.

While the present spelter market is bidding for metal at twenty cents, it would be unwise to figure any large part of the output of Butte & Superior sold at anything like such prices. On ten-cent spelter, the company can earn, theoretically $28.30 per share, taking cost at four and a half cents per pound. On this basis earnings would be $7,700,000 on the 272,018 shares of stock outstanding equivalent to better than 40 per cent. on the present market price of $70 for the stock.

Owing to the uncertain and somewhat complicated factors that we have outlined as entering into computation of costs, it would be only good judgment to cut some several points from the percentage figures arrived at by our chart. Say $24 earned on ten-cent spelter, it is still so big that nothing save the uncertain character of the demand could justify the stock remaining at its present levels.

American Zinc

American Zinc, Lead & Smelting hails primarily from Boston, where it has been occasionally traded in on the Boston Stock Exchange for a long time; up to a few months ago, the company was considerably in debt and was not making enough in the way of profits to create any amount of enthusiasm among its shareholders. All at once the outlook changed.

One of the properties owned by the Smelting Co., is the Mascot mine in Tennessee, from whose ores it is possible to make a spelter almost wholly free from lead. For such spelter a premium is paid because in making brass shells, which must not swell and stick in rifles or machine guns, the presence of lead is a grave defect. This production is eagerly sought by the brass mills; the smelters of the company, located at Hillsboro, Illinois, and at Caney and Dearing, Kansas, were all at once started up and pushed as rapidly as possible to full capacity. The Smelting Company handles about one-half of the Butte & Superior output.

In addition to the mining property in Tennessee, the American Zinc, Lead & Smelting Company is one of the principal operators in the Joplin field and owns about 65 per cent. of the stock of the Wisconsin Zinc Company. Profits for the company must have continually outrun the earlier estimates. The floating debt of $1,130,000 is to be entirely cleaned up out of the earnings of the current year, such bonds as are not converted are to be called for payment, when the company will still have less than 200,000 shares of stock outstanding, par $25, no debts of any kind save current bills, and out of the $3,000,000 or more which will be earned will have surplus available for some large extra dividends.

Conditions commercially, owing to the position of the foreign smelters has heretofore been somewhat against the American producer of the metal. Many of the properties over the country, unable to make their output at any such figures as Butte & Superior, for instance, have been obliged to close down intermittently, working only when the price would let them do so at a profit.

Apparently this may be changed somewhat permanently now. Even after the war, there will be rearrangements to make that should still give us a chance to hold the advantage which, in a way, has been thrust upon us. On a proportionately stable basis, zinc should be just as attractive to the public as copper, its uses are quite as imperative and the mining profit, while just now abnormal, ought to be about the same as in the red metal.

Mining and Oil Inquiries

Inspiration Convertibles—Best Coppers

H. Bridgeton, N. J.—We believe Inspiration Copper Convertibles are a good investment.

As to the copper stock that holds the largest possibilities, we could only venture a guess. We are not sure in our own minds that any one holds predominating large possibilities over another. The whole list of coppers seem destined for better prices when the market starts on its upward move. If you want to buy coppers, you would do well to distribute the money over several issues rather than concentrate in one. In our inquiry department pages of the past few issues you will find various combinations of copper securities given that will meet your purpose.

A convertible bond, if it has no mortgage lien on the property, comes after the last mortgage bond ahead of it, generally speaking. But since the capitalization of nearly every company is slightly different from any other, the place that these bonds take varies. They are generally an unsecured obligation. They therefore come after all mortgage obligations.

South Utah Mines and Smelters

T., Cincinnati, O.—South Utah Mines & Smelters closed down last September, and is still closed down. Nothing has been done except a little exploration work. Evidently the property has no great amount of ore or under the stimulus of present prices work would be pushed forward as fast as possible.

Silver Leaf Canada Copper

L. G., New York City.—There is recent news of a strike on the Silver Leaf property, which may prove of very considerable importance to Crown Reserve. It is a part of the plan of the Crown Reserve management to acquire new properties, and at present prices the shares ought to be considered fair purchases for that class of stocks.

Canada Copper has a long history. It was organized to aid the British Columbia, which was built on the old Montreal & Boston. The Canada Copper Corporation was organized in the early part of 1914. Its success depends upon that of the British Columbia and the New Dominion, all three concerns being under the same control. A few months of the present copper metal market ought to answer all questions for the future of these properties. If they cannot now get on a paying basis, the chances are decidedly against them for the future. There are other investments in Copper which we would greatly prefer.

Anaconda vs. Tennessee

G. Q., New York City.—Tennessee Copper management is in much better hands than formerly, and with the improved outlook for sulphuric acid the company has a much brighter future.

Anaconda, however, has the prospect of very large profits, and all things considered we would be inclined to prefer an investment in the latter rather than in Tennessee.

Mexican Petroleum

D. Rochester, N. Y.—Mexican Petroleum common (70) is a highly speculative issue. There is so much manipulation in this issue that it takes the nimblest trader to keep up with the stock. It is absolutely no stock in which you can take a position and have a reasonable hope that you are right.

The uncertainties about the company's business makes us advise you to leave it alone. There seems to be no logical connection between the stories that are put out about the company and the action of the stocks.

Alaska Gold Mines

L. S., Mich.—Mine is now rapidly rounding into shape so that the mill can be supplied with any tonnage required. Milling costs for April will be at least 12c. lower than in March and for the month of May is expected to show a further decrease. Construction and equipment of much of the plant is being aggressively pushed.

Utah-Apex

A. K., Mass.—Present output is at the rate of 31,000,000 pounds per annum, but within the next 60 days a substantial increase will be made, when certain improvements have been installed which will secure a larger extraction. With a continuation of present conditions initial dividend expected to be declared before the close of summer.

California Petroleum

I would like to have you advise me what your opinion of California Petroleum Common is, as a speculation. What are the chances for a common dividend in the future, and what is holding this stock back, as I notice it is not advancing along with other stocks?—R. H. F.

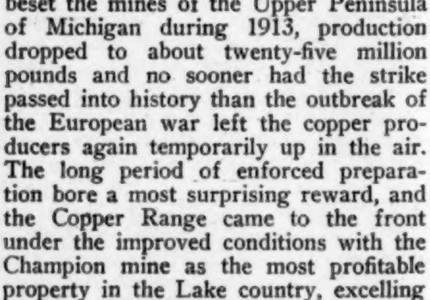
Chances for a dividend on the common of California Petroleum are very slim. The stock is a great speculation, therefore. The stock lags because of these facts. It has no dividend talk in it, and consequently the market has little or no basis on which to bull it upward.

SPECULATION—To purchase with the expectation of a contingent advance in value and a consequent sale at a profit.—Noah Webster.

Earnings
and
Dividends

Copper Range Consolidated

COPPER Range Consolidated is a holding company, usually known as a Paine Webber organization. There never has been a more striking example of what the stimulus of high prices can do than what has happened in this particular string of mines. Copper Range has always been credited with an ability to produce about thirty million pounds of copper annually from the Baltic, the Trimountain, the Atlanta and its half interest in the Champion. During the prolonged labor troubles which beset the mines of the Upper Peninsula of Michigan during 1913, production dropped to about twenty-five million pounds and no sooner had the strike passed into history than the outbreak of the European war left the copper producers again temporarily up in the air. The long period of enforced preparation bore a most surprising reward, and the Copper Range came to the front under the improved conditions with the Champion mine as the most profitable property in the Lake country, excelling in low cost even the wonderful performances of the Ahmeek. For some years it has become the custom to look for the low-cost mines among those of huge tonnages in the West and Southwest. The Champion is making copper for six cents a pound and its outturn is at the rate of thirty-six million pounds per annum, earning more than $4,000,000 per year. The Champion is owned one-half by the Copper Range and one-half by the St. Mary's Mineral Land Company, so that from this source alone the Copper Range is taking some $2,000,000 in net profits.

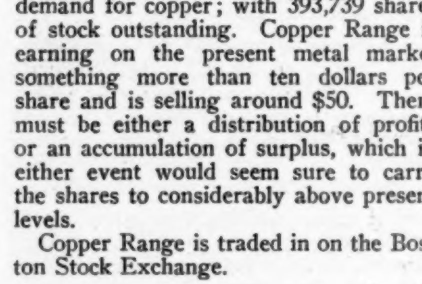


It is estimated that the Copper Range is now turning out for its own account 44,000,000 pounds of copper, against a ten-year previous average of a little more than 29,000,000 pounds. It is problematical what distribution controlling interests may see fit to make in any of the copper companies of the large profits which have rolled up and are rolling up under the stress of present demand for copper; with 393,739 shares of stock outstanding. Copper Range is earning on the present metal market something more than ten dollars per share and is selling around $50. There must be either a distribution of profits or an accumulation of surplus, which in either event would seem sure to carry the shares to considerably above present levels.

Copper Range is traded in on the Boston Stock Exchange.

Shattuck-Arizona

THE possibilities of the deep level mines of the Bisbee District are always alluring. The old Copper Queen was never credited with more than about 60 per cent. of the dividends she had actually earned up to the time the present Phelps-Dodge company was



organized, and the facts given out when the shares were listed on the New York Stock Exchange.

The Shattuck-Arizona has a particularly enviable record. Some years ago when production was just well under way, the Shattuck made a million pounds of copper, that had no copper costs whatever chargeable against it. The precious metal values made the copper a by-product and the revenue derived from its sale clear profit. It is entirely safe to figure a seven and a half cent copper cost on the Shattuck production, though it would be harder to determine averages over any short length of time. The ores of the Bisbee district are bunchy and not all of an average grade as in the case of the low-grade milling coppers, so often classed as porphyries.

Its equipment is capable of handling twelve hundred tons of ore per day. During the first half of 1914 output was running about 1,350,000 pounds of copper per month. Under present stimulus of high prices this has undoubtedly been much increased, so much so, it is fair to presume that an estimated capacity of 15,000,000 pounds per annum is more than conservative.

The company has a capitalization of 350,000 shares, par $10, present market price is $26. A present earning of $4.50 per share as indicated by the chart would be equivalent to a little more than 17 per cent. on the present market price of the shares. The shares are listed on the Boston Stock Exchange.

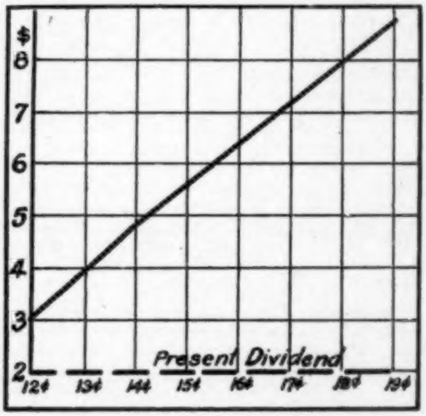
Any kind of a comparison with the low grade milling coppers, judging from the point of income return would make Shattuck appear attractive in price. Dividends at the rate of 50 cents per share quarterly are being paid and increased disbursements are very naturally expected.

Chino

IF one will go back as far as 1909, looking for the origin of the present day star among the "steam shovel" properties he may be somewhat surprised to find that it apparently had no existence at that by no means remote date. Chino was made out of the Santa Rita.

The property is one of the quickest steam shovel properties ever brought to the productive point, because in some parts of the property there was little or no overburden to remove. The mill capacity of the Chino is about 5,300 tons per day and the ore averages better than 2 per cent. In 1914, with a curtailment of 50 per cent. enforced during the latter part of the year, Chino produced 54,000,000 pounds of copper, at a net cost of 7.35 cents per pound.

When production was first started on the property, the ore reserves were



estimated at 90,000,000 tons and during the life of the property, up to the close of last year, development work had so far kept pace with extraction as to offset any diminution in reserves. Present output is probably well above the 60,000,000-pound mark and will be further increased later by the installation of a flotation plant. Flotation in an oil solution has come to be recognized by all copper producers as a great step in metallurgy in advance of the ordinary wet concentration, as making a greater saving of metal content, which is of particular importance to low-grade large tonnage mines.

In 1913 and 1914 Chino's earnings were equivalent to $3.75 per share. As copper costs do not increase when the price advances, but larger tonnages bring down the per ton overhead, Chino earnings must rise almost perpendicularly with the present metal market.

Mining Digest

Ahmeek.—Production now running at the rate of about 25,000,000 pounds per annum. Cost of production is not expected to be much over 7c. on which profits would be at the rate of $4,000,000 per annum or $20 per share on the increased capitalization which was raised from $1,250,000 to $5,000,000 at the annual meeting of the stockholders held during the week of June 12.

Alaska Gold.—All charges both fixed and overhead are being borne by the section that is now working and the interests identified with the company say that every ton of ore mined so far has shown a profit. Costs are proving to be below original estimates.

Alaska Juneau.—Operations in building the plant will soon be begun. It will be an 8,000-ton mill. Ultimately the plant is expected to have a capacity of 20,000 tons daily. Estimated that the company has 80,000,000 to 100,000,000 tons of ore on which a profit of from 70c. to $1 will be realized.

Amalgamated.—Dissolution of the company voted by the stockholders. Just how soon the process will be completed is not certain, but it is expected the plan will be put into operation immediately. More than 76% of the outstanding stock voted for the proposition. 20% of the stock is held abroad.

American Zinc.—Seventy per cent. of the company's output is sold for the latter half of the year at very favorable prices. Tremendous demands still existing for spelter and contracts far into the future being made.

Anaconda.—Earnings running at the rate of $26,500,000 per annum and production at the rate of 265,000,000 pounds per year. Expected the dividend will be raised so that the stock is on a $2 or $3 basis per annum. Understood that the shares of Anaconda will become more popular in future. When company reaches 300,000,000 pounds per year the earnings will be at the rate of $6.50 per share.

Bingham Mines.—Earning its bond interest now twelve times over. Last year net earnings were equivalent to 6 times interest charges.

Braden.—Special meeting of stockholders for June 28, to extend maturity date of the $988,000 collateral trust bonds for one year from Nov. 1, 1915. In May Braden produced 2,364,000 pounds of copper. Total for five months past 12,696,000. Notwithstanding the high price of copper and profits now accruing, it is believed that dividends are out of the question until outstanding loans have been funded into some permanent form.

Butte & Superior.—Record-breaking operations going on, May being the largest month in the history of the company. Thought possible that copper will be found in considerable quantities in the mines somewhat lower down.

Calumet & Arizona.—Record production in May of 5,727,000 pounds. Net earnings were about $600,000. Cost of reduction per pound was the lowest in the history of the company.

Calumet & Hecla.—Production, with subsidiaries, running at the rate of 150,000,000 pounds per year against 101,000,000 in 1914.

Chile Copper.—First results of treatment of ore have proven up to the company's expectations of a 90% recovery. By the end of the year it is expected the company will be treating 10,000 tons of ore a day, which means a production of 10,000,000 pounds per month. The cost, it is figured, will be around 6c. a pound. On 20c. copper the earnings would be at the rate of $17,000,000 annually.

Chino.—Production will soon be running at the rate of 70,000,000 pounds annually, with cost between 7c. and 8c. per pound. On the basis of present copper prices company would earn $9 to $10 a share. Company could disburse much of extra earnings in dividends.

Consolidated Copper Mines Co.—Plans under consideration for raising $1,000,000 to carry on development work. Ore reserves have been materially increased during past year. Tonnage placed at 25,401,309 tons of 1.131% ore. Shipments of ore under contract with Nevada Consolidated have been resumed. Believed development work during next year should warrant erection of 5,000-ton mill.

Eagle & Blue Bell.—Production in April, 900,000 pounds of lead and net earnings $16,000. Hoped to maintain this rate of output for remainder of year.

East Butte Copper Mining Co.—Second blast furnace of the smelter started on June 17, bring operations of the smelter up to capacity. It is now handling about 800 tons of ore daily. East Butte smelter producing at the rate of 1,800,000 pounds of copper per month.

Granby.—Net earnings have reached $300,000 per month. Production will be increased. Dividends have been resumed by the declaration of $1.50 per share. When running full company can turn out 3,750,000 pounds of copper, which with improvements to be inaugurated, cost about 7c. per pound.

Kennecott Copper Co.—Shares traded in on the Curb Market, New York, for the first time, week of June 13, around a price of $25. Expected the combined properties will produce around 60,000,000 pounds of copper per annum.

Miami.—Production during May approximately 3,600,000, which was the largest yield turned out in any single month. Cost of production was close to 8½c. By August it is expected the output will be about 4,000,000 pounds.

Old Dominion.—Production running at the rate of over 33,000,000 pounds per annum and company earning approximately $12 per share.

St. Joseph Lead.—Production this year expected to be about 85,000 tons or practically full capacity. Business heavy and profits large on account of increased price of lead. Good earnings will enable the company to reduce its outstanding notes which are due in 1917.

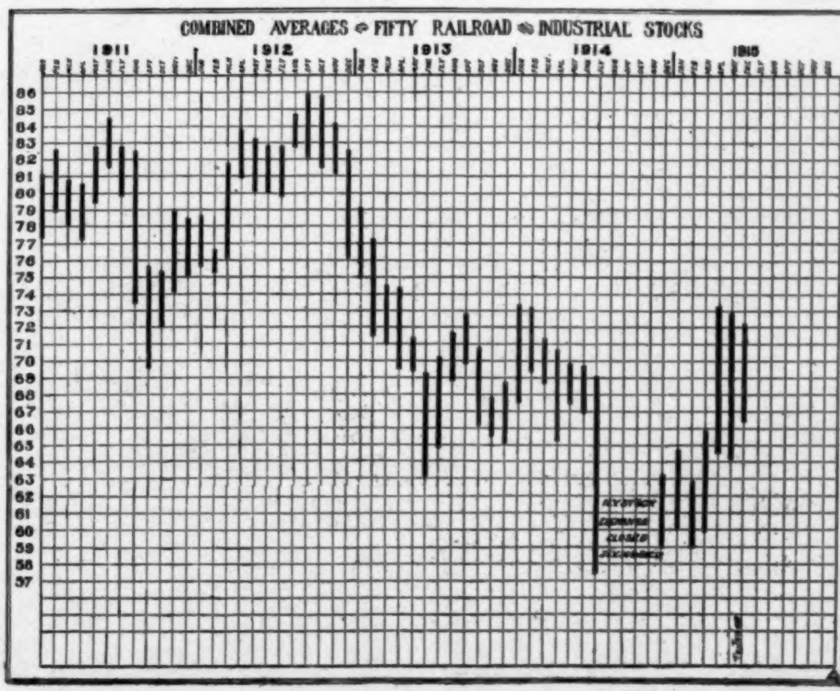
Stewart Mining.—Dividend of 10% declared payable June 29 to stock of record June 19.

Tonopah.—Merger of this company, Tonopah Victor and Tonopah Extension, ratified by stockholders. The Extension company will exchange one share of its stock for seven shares of Merger stock and one share for eight and one-half shares of Victor stock, and will assume all obligations of both companies.

Tuolumne.—Operations may be resumed if president can get from the stockholders a loan of $35,000 to begin work and to take care of the company until earnings come in from the product. President offers to furnish $5,000 of it himself. Company is now $10,000 in debt.

Utah Apex.—Production now running about 40,000,000 pounds of lead per annum, will be increased within a few weeks by additional facilities and better process work. Costs the company 2½c. per pound to mine its lead, so that at the basis of 7c. selling price, it would be making $2.50 per share.

Utah Copper.—More than 40 years of productive life ahead of this company. Gradually settling down to a manufacturing basis. In two or three years the work will be so settled that it will be possible to estimate output and costs very closely.



TRADERS' DEPARTMENT

How He Made a Profit
and
Why He Lost It

A Comparison of Two Methods

FOR some time I followed the plan of buying half a dozen or more of the standard stocks on declines, using big margins, and selling out when I thought I had a satisfactory profit. I made considerable money in this way, but I got interested in Missouri Pacific as a long-pull investment and lost most of what I had made. I am thinking now of going back to my original plan. —*Extract from Letter from an Old Subscriber.*

IT IS really surprising how many letters similar to the above reach this office. This man made money by what is ordinarily called speculation and he turned around and lost it in what is generally called investment. What is the reason? A great deal of printer's ink is used up every year in warning the public not to speculate, but to invest. Can it be that all that ink is wasted?

The answer is that there are several kinds of speculation and several kinds of investment. "Old Subscriber" was trading on margin, but he was trading in a safe and businesslike way. His letter sounds simple enough—but just stop and see what he was doing:

First, he was distributing his risk. He didn't buy one stock only, no matter how good it seemed, but bought half a dozen or more at the same time. One might disappoint him and show a loss, but the loss might be made up by others that had done even better than he had expected. If he bought six stocks at an average price of 80 and one of them, for which he paid 50, went into the hands of receivers and proved worthless, the entire loss would nevertheless be made up by an advance of 10 points on each of the other five stocks.

Second, he bought only the standard stocks. The stocks he mentioned were Great Northern, Northern Pacific, International Harvester and others of the same class. In other words he selected investment stocks, although he proposed to buy them on margin. He bought only stocks on which the earnings were large and which had a satisfactory market, so that he could sell them easily when he wanted to. It is easy enough to select stocks of that class—stocks of companies which are strong enough to weather any depression that is in the least likely to strike us. It's easy enough, but there are a whole lot of traders that omit to do it.

Third, he bought "on declines." He did not buy because somebody told him stocks were going up, nor because "they looked strong," nor because he got a tip, nor because some important piece of news came out which he thought would have a bullish effect, nor because he had just got some money and wanted to "do something in the market," nor for any one of forty other reasons, all of which are, unfortunately, very common. He bought because the prices of standard stocks had declined and seemed to him to be low compared with conditions.

Fourth, he used "big margins." He did not say how big, but if *we* said big margins we should mean forty or fifty points on active stocks selling above par. Probably he kept enough money in reserve behind his stocks so that he could carry them through any kind of temporary panic which he thought possible under the circumstances.

Fifth, he sold out when he had "a satisfactory profit." He did not try to get the top eighth. He did not wait until he could see that the market was heavy—which would probably be after most if not all of his profit had vanished. Moreover, he did not take this "satisfactory profit" and then get excited and buy his stocks back again ten points higher than where he sold, because

"nothing could stop this bull market."

He says a good deal in that first sentence, you see, when you stop to analyze it. His plan was chiefly remarkable for what he didn't do. He did a few plain, common sense things—and then stopped, until next time. Looks easy, but the public seems to find it hard.

In just the same way, the morals bristle all over the second sentence of the above extract. He "got interested!" He studied on Missouri Pacific until he lost his natural judgment—which was evidently pretty good. He made up his mind that it was a wonderful property—which in many respects it certainly is. The chances are that he bolstered up his opinion with all sorts of statistics—forgetful of the old adage that "Figures won't lie but liars will figure"; also that "There are three kinds of lies—lies, accursed lies, and statistics." (Yes, we know that isn't just what it says, but we have a lot of ladies on our subscription list nowadays.) Finally he convinced himself that Mop was the most wonderful long-pull investment on the list—and he is still pulling on it.

He bought solid investment stocks on margin, and the stock of a company in danger of receivership as a "long-pull investment." The one is called speculation because it is on margin, the other is commonly described as investment. But some kinds of speculation are safer than some kinds of investment.

About the first thing you have to do in order to achieve success in the stock market is to abandon most of the ideas held by the general public in regard to the subject. The public looks up to the "investor" with reverence, but holds up its hands in horror at the "margin gambler." The thing isn't quite so simple as that.

"I buy stocks outright for cash. There is nothing in margin speculation." That is the remark you often hear from the "conservative" business man, and the press generally takes the same position. Well, it depends. If "Old Subscriber" had bought Mop on five points margin instead of paying for it in full, he would have saved money. There is without doubt a good deal more money lost in "investment" than there is in margin speculation, taking the country as a whole. When you buy a stock outright you can lose its full value if your "investment" goes wrong, while if you had bought it on margin all you could have lost would have been the margin, and if you went a step further and put in a stop order you could have limited your loss to a comparatively small amount.

You may have a few certificates of stocks you bought for "investment," which you now propose using for wall paper. (Oh, all right—we know it's none of our business—you needn't get sore just because we mentioned it—we've got some, too.) The point we want to make is that you can't legitimately call a stock an investment just because you have paid for it in full. What you have done with your money has nothing to do with the standing of the company that issued the stock.

There are just as many ways of making money in the stock market as there are of losing it, and one of those ways is to pick out some stock that is selling for much less than it is worth and hang on to it, regardless of the trend of the market as a whole, until it goes up and yields a good profit. But our observation is that this is a great deal harder for the average outsider than the plan of buying a number of standard stocks at a time when the whole market seems to be relatively low and holding them until a good all around advance has been realized.

Either method can be followed in a safe, conservative manner, or in a haphazard, dangerous way. That is where the character of the man behind the method comes in. "Old Subscriber" is thinking of going back to his original plan and we are inclined to believe that he is wise in doing so.

Sudden fortunes indeed are sometimes made by what is called the trade of speculation.—A. Smith.

Legal Relation of Broker and Customer

Margin Calls—Recovery of Damages—Faulty Executions

By WILLIAM B. DEVOE, of the New York Bar

PART II

IT has been my experience that nine-tenths of all the lawsuits in which stock-traders and their brokers become involved have their origin in an idea on the trader's part that his broker has not dealt fairly with his account. Of course, when one has sustained a loss, whether in the stock market or elsewhere, it is one of the primary instincts of human nature to try to place the blame for that loss upon someone else. However, before breathing forth threatenings and slaughter (in a legal sense) against your broker when the latter has, as you think, wickedly and maliciously "sold you out," it is most advisable to form a clear conception of just what rights the law gives that gentleman in relation to your account. By so doing you may save yourself much time and many lawyer's fees.

Margin Calls

I mentioned before the various obligations imposed on the broker who purchases securities for a customer on margin. Among them is the duty to carry the securities for the customer so long as the agreed margin is kept good, or until notice is given by either party that the transaction must be closed. Some real or fancied breach of this duty is the most fruitful source of litigation between traders and their brokers.

Upon giving reasonable notice of his intention, a broker may close out his customer's account at any time even though it shows a profit. Of course as a matter of fact not one broker in a thousand would choose to do so under such circumstances. In practically every case where the customer is "sold out" without his consent, it is done (as many of us know to our sorrow) because margins have become impaired or exhausted. But even when these conditions exist, the securities may not, as a general rule, be sold without notice to the customer. This is for the reason that legally the securities are the property of the customer, who has pledged them with his broker in return for the portion of their purchase price advanced by the latter, and one of the strictest rules of law requires a holder of pledged property to give notice to the pledgor (the owner) before selling it to satisfy loans made on the security of the pledge.

But to how much notice is the customer entitled? "Why," the courts reply blandly and with great unanimity: "To *reasonable* notice, of course." Reasonable! That hoary and venerable friend of the judiciary! How they do love the word—its meaning is so delightfully elastic. We read of "reasonable restraint of trade," "reasonable care," "reasonable notice" and many others. And when the exasperated customer cries: "What *is* reasonable notice?" hear the reply. "Whether the time given to the customer in which to replenish the margin is reasonable depends on the circumstances of each particular case. Such time may be an hour, a day, or a week, according to the location of the parties, the condition of the margin, the condition of the market, the nature of the stock, the ability of the customer to respond, etc." (*Campbell on Stock Brokers, p.* 40).

It may, however, be enlightening to consider what the courts have, in actual cases, regarded as sufficient notice to justify the broker in closing out his customer's account. Thus, in *Stewart vs. Drake,* a notice given on Thursday afternoon that the stock would be sold

at a specified hour on the following Saturday unless more margin was supplied, was held to be reasonable. In *Lazare vs. Allen* demands for additional margin were made on September 18, 19 and 20. The margin demanded was not supplied, and on September 22, at 10:30 a. m., the broker notified his customer that he must have more margin at once. Failing to receive it he closed out the customer's account at noon. The court held that these successive notices were sufficient, although the last notice of an hour and a half would not alone have been enough. Finally, in *Small vs. Housman,* the court said: "Certainly, a reasonable time was allowed, because at least two days elapsed after the first demand, not complied with, before a sale was made."

The next question of importance is, how must the notice be given? The general rule is that it should be served upon or given to the customer in person. To this rule there are, however, certain exceptions. Thus, if the transaction has been handled for the customer by an agent, the notice may be given to the agent; or if the customer has gone away from the city without leaving his out-of-town address, the notice may be sent to his business address in the city. If the customer is in town, and the broker is unable to get in personal touch with him after making a fair and honest effort to do so, he may send the notice to the customer's business address. The law will then presume that the customer received it. In order to overthrow this presumption, the customer must prove that he did not in fact receive the notice, *and that his failure to receive it was not due to any want of care on his part.* This last requirement is of particular significance in those instances (not unknown) where the customer deliberately conceals his whereabouts from his broker in order to escape the latter's demands for more margin.

It must be remembered that the general rule requiring the broker to give notice before closing out his customer's account will not apply where the customer has, by special agreement with his broker, relinquished his right to demand such notice; and where he has had a long course of dealings with the same broker he may, under certain circumstances, be deemed to have waived this right, even in the absence of such a special agreement. This point was discussed in detail in the preceding article.

Damages

But let us assume that, measured by the rules laid down in the cases cited above, the broker has illegally and unwarrantably sold out his customer's account. The question which then vitally interests the latter is: "Am I entitled to any damages, and if so, how much?"

In the first place the customer is undoubtedly entitled to *some* damages, for the broker, in unlawfully disposing of his customer's property, has been guilty of what the law calls *conversion.* As to the amount of these damages, the rule is that the customer may collect from his broker the net proceeds of the wrongful sale, and in addition the difference between the sale price and the highest market price in excess thereof reached within a reasonable time after the customer learns of the sale. The reasoning upon which this rule is based is as follows: When the broker sold the stock the customer was wrongfully deprived of it, and in order to restore conditions as they existed before the unauthorized sale he would be compelled to buy back the stock in the open market. If in order to do so it should be necessary to pay a higher price for the stock than was realized on the sale, it is only fair that the broker should make good the difference. But the customer cannot wait indefinitely before seeking redress on this theory—he must do so within a "reasonable" time (hail to our old friend!) after he learns of the broker's wrongful act. In order to be entitled to these damages it is not necessary for the customer actually to repurchase the stock in the open market. The highest market price reached by the stock within a reasonable time after he hears of the unauthorized sale is simply the measure by which his damages are computed.

What is a reasonable time in such a case? Well, it is such time as will give the customer "a reasonable opportunity to consult counsel, to employ other brokers, to watch the market for the purpose

of determining at what quotation it is advisable to repurchase, and to raise funds if he decides to repurchase" (*Burhorn vs. Lockwood, 71 App. Div.* 301, 304). In one case it was held that thirty days was a reasonable time; in another, that from May 14 to June 21 was more than a reasonable time; and in a third the court said that a reasonable time elapsed before the expiration of six months. As a rough-and-ready rule it is safe to assume that you will not be permitted to hold the broker liable for any increase in market price occurring more than thirty days after the wrongful sale. Of course, if the stock continues to decline in value after the broker has unjustifiably "sold out" his customer, so that its price during a reasonable period thereafter is *less* than the sale price, the customer is only entitled to the net proceeds realized on the sale.

Faulty Executions

A word here may not be amiss on the general subject of damages recoverable from brokers for failure to carry out their customers' orders—as, for example, where the broker buys when ordered to sell, or vice-versa; or where he buys at a higher price or sells at a lower price than ordered, etc. Every such breach of the customer's instructions (assuming that it would have been possible to execute them correctly by using reasonable care and diligence) gives to the customer the right to recover damages. The measure of these damages, generally speaking, is the difference between the amount which the customer would have received if the broker had properly carried out his orders, and the amount which he actually does receive as a result of the broker's blunder.

In my next article I shall take up the customer's rights and duties on a "short" transaction, as they differ in some respects from those arising on a "long" trade. I shall also try to explain what the customer can do to protect himself if his broker fails.

Part Three of this series will appear in an early number.

Technical and Miscellaneous Inquiries

Crop Reports

I have been preparing data from the Essential Statistics appearing in your Magazine from time to time, and now require information showing basis on which reports of crop conditions are compiled. If you are able to furnish such information, same will be greatly appreciated.—C. N.

You will find on page 226 of the MAGAZINE OF WALL STREET for July, 1914, a table showing the basis on which crop reports are compiled. We presume this is the information you desire. The price of that issue is 25 cents.

Do You Advise Using Puts and Calls?—V. T.

We consider puts and calls of assistance to the trader in stocks, provided they are properly used. They should not be used at all times and the trader should not attempt to base his entire business on these privileges, but there are conditions of the market where they may be used to good advantage.

In the MAGAZINE OF WALL STREET for July, 1913, an article appeared, entitled "The Practical Use of Puts and Calls." We think this would help you. We can furnish you this back number of the magazine for 25 cents postpaid.

Use of Averages

E. M.—The graphic showing the combined average of 50 Railroad and Industrial Stocks which we publish about once a month, and which appeared on page 123 of our May 15th issue, shows the highest and lowest points touched by this average at any time during each month.

The table "Market Statistics," which appears in each issue, shows you the highest and lowest points touched by the average of 50 stocks each market session.

We do not publish or compile any graphic showing the mean price for the 50 stock average day by day.

Many students of the market chart this 50 stock average by using a separate line for each day. They then connect the mean, or middle points of the daily lines, so as to get a line showing roughly the trend from day to day. We presume that is what you have in mind.

An Order Misunderstood

W. R.—If we are correct in regard to the facts, your order to your broker was inaccurate. As we understand it, you were long of Virginia-Carolina—the price being below 30 at the time your selling order was placed.

This order read, "Sell 50 shares at 33½ when the market has passed this price." This could only be interpreted as an order to sell 50 shares at 33½. It was not a stop order. If you intended to make it a stop order, it would be necessary for you to state how high the price must go before your stop order would become operative.

For example, you might have given instructions to enter a stop at 33½ after the market had sold at 38. It would be necessary for you to state definitely how far above 33½ the price must go before your stop order should be entered.

Apparently, you have not a correct understanding of the use of stop orders, and your brokers thought it easier to let your orders stand as given, than to attempt to enlighten you. The past issues of this magazine contain a great deal of information in regard to stop orders and their use, and we think it would pay you to read up on the subject.

Volumes in Tape Reading

C. H. B.—The plan of forecasting the immediate movement of prices, by noting whether the largest volumes fall on the bid price or the asked price in tape reading, is not so valuable now as it was when "Studies in Tape Reading" was written. The change in the rules of the New York Stock Exchange, which makes it impossible to bid a certain price for a large block of stock "all or none," and requires the bidder to take the smaller lots offered at that price, has changed the apearance of the tape considerably in this particular. At present, it is not possible to get much help from this idea in tape reading.

We do not take much stock in the theory that the market will advance about as many days as it declines. We have never yet discovered any way to apply this idea advantageously.

Execution of Order

In the recent Lusitania panic I placed an order to buy an odd lot of St. Paul at 92¼. The market then was 93⅛ and quotations came as follows: 92¾, 91, 90, 91, 92. My order was reported filled at 92¼. Was this correct?—H. B.

Your order was executed correctly. When you place an order to buy St. Paul at 92¼, your order is filled as soon as the prices reaches that point. As your order was for an odd lot of stocks, the sale did not appear on the tape—only 100-share lots being quoted on the tape, unless the broker who executes the order especially requests that an odd lot be quoted.

Execution of Stop Order

On May 5 I gave my broker an order to sell Virginia-Carolina Chem. at 35 on stop, after it had first sold as high as 37. He accepted this order, but the stock was not sold. Should it not have been sold at 35?—W. R.

If your order was in the hands of your broker before 12 o'clock on May 5, the stock should have been sold at 35. On that day, the price advanced to 37 between 11 and 12, and declined to 35 a little after 12 o'clock. There should have been no difficulty in executing your stop at 35.

Market Statistics

		Dow Jones Avgs. 12 Inds.	Dow Jones Avgs. 20 Rails.	50 Stocks High	50 Stocks Low	Total Sales	Breadth (No. issues)
Monday,	June 7......	90.16	93.06	70.70	69.61	475,500	135
Tuesday,	" 8......	89.81	92.87	70.87	69.79	476,600	146
Wednesday,	" 9......	88.50	92.54	70.28	68.90	541,500	147
Thursday,	" 10......	90.30	93.38	70.71	69.62	486,200	141
Friday,	" 11......	91.77	94.10	70.07	70.68	856,900	166
Saturday,	" 12......	92.38	94.17	72.12	71.51	400,100	158
Monday,	" 14......	91.54	93.95	72.17	70.88	670,400	168
Tuesday,	" 15......	91.45	93.26	71.92	71.04	480,600	167
Wednesday,	" 16......	91.84	93.69	71.68	70.97	311,900	144
Thursday,	" 17......	91.67	93.36	71.84	71.08	328,825	145
Friday,	" 18......	91.29	93.07	71.36	70.54	325,641	138
Saturday,	" 19......	91.31	93.11	71.08	70.77	120,100	107

COTTON AND GRAIN

Financing the New Cotton Crop

By C. T. REVERE

IT is becoming increasingly evident that the course of cotton prices three or four months hence will depend largely upon the thoroughness of the system by which the financing of the cotton crop is organized and the ability of the South to hold its crop in order to avoid a repetition of the sacrifice prices which prevailed last season. There are not lacking those pessimists who believe that cotton will sell nearly as low next October and November as it sold in those same months in 1914.

It is admitted that the first shock of war has passed and that there is no likelihood of a crop this season as large as that which pressed so heavily upon the markets last Autumn. At the same time, it is argued that this season has its new and special problems to face. Attention has been called heretofore in this magazine to the acute situation created by the blockade of Austria and Germany which, if maintained and kept efficient, would cut down the consuming power of the world by fully 2,000,000 bales. Attention also has been called to the enormous stocks of cotton in Europe which, including the amount afloat, aggregate approximately 4,000,000 bales without counting the supplies held in mill warehouses. Consequently, a crop of even moderate size—with consumption curtailed by blockade—would weigh almost as heavily upon the markets as a bumper yield with no restrictions on the absorptive capacity of the textile industry.

Last Autumn the New York contract market went below 7 cents for the near positions and to the basis of 7¾ cents for the late months. It is impossible to keep a record of spot prices in the South but there were many interior towns where buyers bought cotton from the wagons on the basis of 5½ cents to 5¾ cents for middling and good middling.

The situation is somewhat different this season as it is generally admitted that the financial stringency which prevailed last Autumn is not likely to be present next fall because of the enormous inflow into this country of gold from Europe and the practical operation of our new banking law which will greatly expand credit facilities, particularly in the South, where cotton furnishes excellent collateral.

Ordinarily, banks are willing to advance money on cotton on liberal terms if it is properly stored and insured. One or two examples will show the preference which is given to cotton in loans. In North Carolina banks are willing to lend money on cotton which has been properly stored and insured at rates averaging 7 per cent. These same banks charge 8 per cent. or more for ordinary loans on personal security or real estate. In Georgia the rate on cotton loans ranges around 8 per cent. with a minimum of about 7 per cent. and a maximum of about 10 per cent. This, of course, applies to individuals and small concerns. Many of the large shippers obtain money from their local bankers at 6 per cent. The rate on personal notes in Georgia ranges from 8 to 12 per cent. with an average of not less than 10 per cent. In both North Carolina and Georgia the interest charged on store accounts (which is usually included in the selling price) ranges from 10 to 40 per cent. The average is said to be not less than 20 per cent. These examples serve to show that cotton is the South's favorite collateral.

In order to understand the pressing needs of the South around marketing time it is necessary to make some examination of the credit system in the cotton belt. Many cotton growers especially of the "renter" class, try to pay to the supply merchants an advance of 25 to 35 per cent. on their supplies which are actual necessities. The accounts usually run from 6 to 8 months. Exorbitant rates of interest, as set forth above, and included in the selling price, are charged and cannot fail to be burdensome to any class of people. The ex-

tremely high prices which the South has obtained for its cotton have not failed to bring about the emancipation of the grower.

When the crop is harvested, the farmer sells his cotton and settles his accounts provided the price permits him to do so. Then it is usually necessary for him to mortgage his next year's crop to the supply merchant to obtain credit. The Department of Agriculture, while admitting that it is difficult to see how this situation can be remedied owing to the fact that tenants have no means of living while the crop is being made without going to the supply merchants, takes the view that the situation would be greatly improved by establishing a system of warehouses and encouraging the tenants to store such cotton as is not absolutely necessary to settle their accounts. In this way it is believed, especially if economy in living should be practiced, that many tenants could free themselves from their obligations in the course of two or three years.

Unfortunately the small merchant is as helpless as the farmer. He advances supplies in the expectation that cotton will bring good prices. As a general thing, he has bought his stock on time and cannot meet his own obligations until the accounts of the farmers are paid. Whenever the price is so low that the farmer is in debt for the season, the merchant is likely to be seriously embarrassed. When the price of cotton is ruinously low the merchant cannot afford to press the tenant to the limit for, the cotton, if thrown on the market, would not bring enough to settle the account.

Unfortunately this chain of weakness extends to the local banker. He advances some money to the local merchants and some to the farmers. Usually he has borrowed most of this money from some larger institution located outside the cotton belt. He is supposed to repay this money at a stated time, generally when the crop has been brought to market. When the farmer fails to meet his obligation, the merchant finds it difficult to pay the banker and the local banker is thus dependent upon the mercy of the larger banker.

Eventually this problem will be solved by a warehouse system of adequate capacity. In addition to having the warehouses, it would be necessary to educate the farmers and merchants up to the scientific use of these storage facilities. Last season a great campaign was conducted throughout Texas and other parts of the Southwest to increase the number of warehouses. Through the cooperation of public-spirited bankers, business men and well-to-do farmers, great progress was made. It was found, however, that the farmers did not use the warehouses as generally as they should have and a great deal of cotton was left out in the yards on the farms exposed to the weather. The fear of country damage caused the merchant to press the farmer to sell his cotton whereas if the bales had been properly stored no such pressure would have been exerted.

The South, however, has increased its storage facilities very greatly in the last few years. Moreover, the operation of the new banking act will give a large amount of available funds for cotton which has been satisfactorily stored. Consequently, the weight of cotton next Autumn may be materially reduced by a more general resort to the warehouse. It is proposed to discuss this feature of the South's cotton storage facilities in a forthcoming article.

How to Trade in Grain

In response to many requests, we have obtained a supply of booklets relating to trading in grain, concise explanations of trading methods and statistics which we will supply to our readers upon receipt of a two-cent stamp. While these booklets are published by brokerage firms and bear their imprint, readers will incur no liability or obligation in sending for them.

Looking Ahead On The Wheat Market

By P. S. KRECKER

THURSDAY, July 8, is the most important future date on the wheat market calendar, for on that day the government will issue a comprehensive report covering the winter and spring wheat crops, including revised estimates of the yield. The eyes of the grain trade will be focused particularly upon the exhibit which that report will make on the spring wheat crop.

It will be recalled that the promise of a billion bushel wheat crop hinges upon the yield of the spring sown grain. When the government issued its June 8 report, it shaded heavily its first estimate on the yield of winter wheat, reducing the figures from 693,000,000 bushels indicated on May 1 to 675,500,000 bushels indicated on June 1. But this reduction was more than offset by the vigorous promise of the spring wheat crop, which, according to the government forecast, would be 273,513,000 bushels compared with an actual yield the previous season of only 206,027,000 bushels.

It was this additional 67,000,000 bushels promised for the spring wheat crop which brought the indicated combined yield up to the huge total of 950,000,000 bushels. It is evident, therefore, that upon the showing on the eighth of this month of the spring wheat crop will depend ideas of the final yield. The official figures on condition made the average for spring wheat 94.9 per cent. as of June 1. That condition was 1.6 per cent. lower than that for the corresponding date of the previous year, an increase of 10 per cent. in acreage planted accounting for the larger forecast of this year. It must be apparent that any material deterioration from the June 1 average will spell reduced outturn of spring wheat and a smaller crop.

The constant rains in the States of Kansas and Oklahoma recently undoubtedly have held back the winter wheat harvest, but these rains have not touched the spring wheat region which is further north.

However, there has been some complaint of cool weather accompanied by frosts, and private advices are that the crop has lost much of its early favorable start.

The government report will tell just to what extent these private advices are correct. In the meanwhile it is admitted even by optimists that there has been some deterioration from first promise but it is contended that, granting damage reports have a real kernel of truth, it is probable that the ultimate yield of wheat will be as large as it was last year, when a record yield was harvested.

While on the subject of supplies it may be observed in passing that the government department of statistics of India estimates the total crop of that country this year at 384,272,000 bushels. This would compare with revised estimates of last year's yield which made it 311,883,000 bushels. The increase of 72,300,000 bushels would appear to place the people of India in a very comfortable position and leave quite a surplus for export purposes.

Argentina also has a surplus, estimated at 40,000,000 bushels, available for immediate shipment, so that the question of supplies is not of moment at present. That it ultimately will loom large again is strongly indicated, however, by the recent developments on the European map. The addition of three other countries—Greece, Roumania and Bulgaria—to those already engaged in war would ultimately prove stimulative to values of food stuffs.

Even without the entry of three additional countries into the war as now indicated, the world will buy as much wheat during the ensuing year as it has in the past if the great conflict now raging does not cease, and probably will need much more. The recent depression in values merely reflected the pressure of new crop wheat upon a market temporarily satisfied. Until export demand appears there is little incentive to bull futures and no sustained advance can be expected but wheat is certainly a poor short sale after a break of 30 cents a bushel. A waiting policy is suggested by recent developments until items of yield and foreign demand are better known.